ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

The Directors
NVC Lighting Holding Limited

7 May 2010

Goldman Sachs (Asia) L.L.C.
The Hongkong and Shanghai Banking Corporation Limited

Dear Sirs,

We set out below our report on the financial information regarding NVC Lighting Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2007, 2008 and 2009 (the "Relevant Periods") prepared on the basis set out in note 2 of Section II below, for inclusion in the prospectus of the Company dated 7 May 2010 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the British Virgin Islands (the "BVI") as a limited liability company on 2 March 2006 and was redomiciled to the Cayman Islands on 30 March 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company is the holding company of other companies comprising the Group.

The principal activities of the Group are the manufacture and sale of lamps, luminaires, lamp transformers, lighting electronic products and other appliances, which are mainly conducted by the Company's subsidiaries located in the People's Republic of China (the "PRC"). The Company and its subsidiaries have adopted 31 December as their financial year end date.

Particulars of the subsidiaries comprising the Group at the date of this report are set out below:

Company name	Place and date of establishment/ incorporation and operation	Nominal value of issued/registered capital	Percentage of ownership interest attributable to the Company	Principal activities
NVC Lighting Technology Co., Ltd. ("Huizhou NVC")[(a)]	the PRC 29 April 2006/ Mainland China	US$13,250,000	100%	Manufacture and sale of lamps, luminaires, lamp transformers, lighting electronic products and other appliances
Chongqing NVC Lighting Co., Ltd. ("Chongqing NVC")[(b)]	the PRC 1 December 2006/ Mainland China	US$4,000,000	100%	Manufacture and sale of lamps, luminaires and other lighting electronic appliances
Zhejiang NVC Lamps Co., Ltd. ("Zhejiang NVC")[(c)]	the PRC 28 September 2007/ Mainland China	RMB20,000,000 (equivalent to US$2,740,702)	51%	Manufacture and sale of lamps and related products
Hong Kong TYU Technology Co., Ltd. ("Hong Kong TYU")[(d)]	Hong Kong 17 July 2007	HK$200,000 (equivalent to US$25,643)	100%	Trading of lamps, luminaires and other lighting products
NVC (Manufacturing) Limited ("UK NVC")[(e)]	England and Wales 31 May 2007 the United Kingdom (the "UK")	GBP500,000 (equivalent to US$991,650)	80%	Trading of lamps, luminaires and other lighting products

Company name	Place and date of establishment/ incorporation and operation	Nominal value of issued/registered capital	Percentage of ownership interest attributable to the Company	Principal activities
World Through Investments Limited ("World Through")[(f)]	the BVI 5 August 2005/ Mainland China	US$50,000	100%	Investment holding
Hong Kong Max Rich Holdings Limited ("Max Rich")[(g)]	Hong Kong 18 September 2008	HK$1	100%	Investment holding
Jiangshan Phoebus Lighting Electron Co., Ltd. ("Jiangshan Phoebus")[(h)]	the PRC 8 March 2006/ Mainland China	US$7,000,000	100%	Manufacture and sale of light tubes for energy saving lamps and related products
Zhangpu Phoebus Lighting Co., Ltd. ("Zhangpu Phoebus")[(h)]	the PRC 9 May 2004/ Mainland China	US$1,000,000	100%	Manufacture and sale of light tubes for energy saving lamps and related products
Zhejiang Jiangshan Sunny Electron Co., Ltd. ("Sunny")[(h)]	the PRC 2 July 1994/ Mainland China	RMB10,000,000 (equivalent to US$1,369,000)	100%	Manufacture and sale of light tubes for energy saving lamps and related products
Shanghai Arcata Electronics Co., Ltd. ("Shanghai Arcata")[(i)]	the PRC 22 September 2005/ Mainland China	US$1,000,000	100%	Manufacture and sale of lamp transformers and other lighting electronic products

(a) The statutory financial statements of Huizhou NVC for each of the two years ended 31 December 2007 and 2008 were audited by Huizhou Dongfang Certified Public Accountants registered in the PRC. The statutory financial statements of Huizhou NVC for the year ended 31 December 2009 were audited by Guangdong Yuexin Certified Public Accountants registered in the PRC.

(b) The statutory financial statements of Chongqing NVC for each of the three years ended 31 December 2007, 2008 and 2009 were audited by Chongqing Dahua Certified Public Accountants registered in the PRC.

(c) The statutory financial statements of Zhejiang NVC for the period from 28 September 2007 (date of incorporation) to 31 December 2007 and for the year ended 31 December 2008 were audited by Quzhou Zhengrui Certified Public Accountants registered in the PRC.

(d) The statutory financial statements of Hong Kong TYU for the period from 17 July 2007 (date of incorporation) to 31 December 2007 and for the year ended 31 December 2008 were audited by Jimmy C.H.Cheung & Co in Hong Kong.

(e) No audited statutory financial statements of UK NVC have been prepared for the year ended 31 December 2007. Its statutory financial statements for the year ended 31 December 2008 were audited by Andrew Miller & Co. incorporated in the UK.

(f) No audited statutory financial statements of World Through have been prepared since its date of incorporation as it is not subject to any statutory audit requirements in its jurisdiction of incorporation.

(g) Max Rich was acquired by the Group on 20 February 2009 from an independent third party at a cash consideration of US$2,225,000. Max Rich is an investment holding company and did not carry out any other business since its establishment.

(h) The statutory financial statements of Jiangshan Phoebus and Sunny for each of the two years ended 31 December 2007 and 2008 were audited by Quzhou Zhengrui Certified Public Accountants registered in the PRC.

The statutory financial statements of Zhangpu Phoebus for each of the three years ended 31 December 2007, 2008 and 2009 were audited by Quzhou Zhengrui Certified Public Accountants registered in the PRC.

(i) The statutory financial statements of Shanghai Arcata for each of the three years ended 31 December 2007, 2008 and 2009 were audited by Shanghai Yongcheng Certified Public Accountants registered in the PRC.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Consolidated Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs"). The financial information set out in this report, including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods, and the consolidated balance sheets of the Group as at 31 December 2007, 2008 and 2009, together with the notes thereto (collectively referred to as the "Financial Information"), have been prepared based on the Consolidated Financial Statements of the Group.

The consolidated financial statements of the Group for each of the two years ended 31 December 2007 and 2008 prepared in accordance with IFRSs were audited by Ernst & Young Hua Ming. The consolidated financial statements for the year ended 31 December 2009 prepared in accordance with IFRSs were audited by us.

Respective responsibility of directors and reporting accountants
The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information and the contents of the Prospectus in which this report is included. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimations made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion solely to you thereon.

Procedures performed in respect of the Financial Information
For the purpose of this report, we have carried out an independent audit on the Financial Information in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were considered necessary to adjust the financial information for each of the three years ended 31 December 2007, 2008 and 2009 in the preparation of this report for inclusion in the Prospectus.

Opinion in respect of the Financial Information
In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the consolidated results and cash flows of the Group for the Relevant Periods, and of the state of affairs of the Group as at 31 December 2007, 2008 and 2009.

I. FINANCIAL INFORMATION

Consolidated income statements

	Notes	Year ended 31 December 2007	2008	2009
		US$'000	US$'000	US$'000
REVENUE	7	130,068	256,415	305,770
Cost of sales	8.1	(99,172)	(193,507)	(221,740)
GROSS PROFIT		30,896	62,908	84,030
Other income and gains	8.2	2,444	5,017	7,659
Selling and distribution costs		(11,810)	(15,230)	(20,654)
Administrative expenses		(6,616)	(12,497)	(26,588)
Other expenses	8.3	(164)	(712)	(633)
OPERATING PROFIT		14,750	39,486	43,814
Finance income	8.4	827	622	755
Finance costs	8.5	(2,710)	(5,030)	(8,737)
Net fair value loss on convertible redeemable preference shares and warrant	8.6	—	(14,946)	(15,780)
Share of profits and losses of associates	8.7	(45)	39	58
PROFIT BEFORE TAX		12,822	20,171	20,110
Income tax credit/(charge)	10	54	(2,103)	(5,420)
PROFIT FOR THE YEAR		12,876	18,068	14,690
Profit for the year attributable to:				
Owners of the Company		12,850	17,949	12,843
Minority interests		26	119	1,847
		12,876	18,068	14,690

Consolidated statements of comprehensive income

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
PROFIT FOR THE YEAR	12,876	18,068	14,690
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations	3,980	4,986	128
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	16,856	23,054	14,818
Total comprehensive income attributable to:			
Owners of the Company	16,830	22,953	12,971
Minority interests	26	101	1,847
	16,856	23,054	14,818

Consolidated balance sheets

	Notes	31 December 2007	2008	2009
		US$'000	US$'000	US$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	23,559	56,158	67,824
Prepaid land lease payments	15	5,085	9,112	11,570
Goodwill	16	—	30,799	33,896
Intangible assets	17	37,333	53,287	52,916
Investments in associates	18	432	808	540
Deferred tax assets	10	54	543	1,329
Long-term deferred expenditure		—	83	72
Other non-current financial assets		—	—	221
Total non-current assets		66,463	150,790	168,368
CURRENT ASSETS				
Inventories	20	20,958	21,727	47,567
Trade and other receivables	21	19,595	80,201	85,795
Prepayments	22	2,711	9,645	6,692
Available-for-sale financial assets	23	—	4,932	—
Cash and short-term deposits	24	12,221	31,402	47,292
Total current assets		55,485	147,907	187,346
CURRENT LIABILITIES				
Trade and bills payables	25	21,575	31,359	54,769
Other payables and accruals	26	10,364	52,444	41,864
Interest-bearing loans	27	4,111	8,117	6,093
Income tax payable		29	2,428	3,208
Government grants	28	—	224	—
Derivative financial instruments	29	570	13,528	—
Total current liabilities		36,649	108,100	105,934
NET CURRENT ASSETS		18,836	39,807	81,412
TOTAL ASSETS LESS CURRENT LIABILITIES		85,299	190,597	249,780
NON-CURRENT LIABILITIES				
Deferred tax liabilities	10	10,131	15,230	15,157
Convertible redeemable preference shares	30	22,572	68,354	57,932
Government grants	28	—	1,387	8,680
Interest-bearing loans	27	—	293	293
Total non-current liabilities		32,703	85,264	82,062
Net assets		52,596	105,333	167,718
EQUITY				
Equity attributable to owners of the Company				
Issued capital	31	—	—	—
Share premium	32(a)	1,009	23,556	23,556
Equity component of convertible preference shares	32(b)	—	6,988	54,481
Shareholders' contribution	32(c)	879	879	879
Statutory reserve	32(d)	1,710	5,525	7,157
Employee equity benefit reserve	32(e)	1,950	2,098	2,172
Foreign currency translation reserve	32(f)	4,495	9,499	9,627
Retained earnings		40,975	55,109	66,320
		51,018	103,654	164,192
Minority interests		1,578	1,679	3,526
Total equity		52,596	105,333	167,718

Consolidated statements of changes in equity

2007

	Attributable to owners of the Company									
	Issued capital	Share premium	Shareholders' contribution	Statutory reserve	Employee equity benefit reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interests	Total equity
	US$'000 (note 31)	US$'000 (note 32(a))	US$'000 (note 32(c))	US$'000 (note 32(d))	US$'000 (note 32(e))	US$'000 (note 32(f))	US$'000	US$'000	US$'000	US$'000
At 1 January 2007	—	1,009	—	760	1,630	515	29,075	32,989	—	32,989
Profit for the year	—	—	—	—	—	—	12,850	12,850	26	12,876
Other comprehensive income:										
Exchange differences arising on translating foreign operations	—	—	—	—	—	3,980	—	3,980	—	3,980
Total comprehensive income for the year	—	—	—	—	—	3,980	12,850	16,830	26	16,856
Transfer to statutory reserve fund	—	—	—	950	—	—	(950)	—	—	—
Employee share option arrangements (note 33)	—	—	—	—	320	—	—	320	—	320
Contribution from a shareholder	—	—	879	—	—	—	—	879	—	879
Capital contribution by minority shareholders	—	—	—	—	—	—	—	—	1,552	1,552
At 31 December 2007	—	1,009	879	1,710	1,950	4,495	40,975	51,018	1,578	52,596

2008

	Attributable to owners of the Company										
	Issued capital	Share premium	Equity component of convertible preference shares	Shareholders' contribution	Statutory reserve	Employee equity benefit reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interests	Total equity
	US$'000 (note 31)	US$'000 (note 32(a))	US$'000 (note 32(b))	US$'000 (note 32(c))	US$'000 (note 32(d))	US$'000 (note 32(e))	US$'000 (note 32(f))	US$'000	US$'000	US$'000	US$'000
At 1 January 2008	—	1,009	—	879	1,710	1,950	4,495	40,975	51,018	1,578	52,596
Profit for the year	—	—	—	—	—	—	—	17,949	17,949	119	18,068
Other comprehensive income: Exchange differences arising on translating foreign operations	—	—	—	—	—	—	5,004	—	5,004	(18)	4,986
Total comprehensive income for the year	—	—	—	—	—	—	5,004	17,949	22,953	101	23,054
Transfer to statutory reserve fund	—	—	—	—	3,815	—	—	(3,815)	—	—	—
Issue of common shares	—	22,634	—	—	—	—	—	—	22,634	—	22,634
Issue of Series A-2 preference shares	—	—	6,988	—	—	—	—	—	6,988	—	6,988
Share issue costs	—	(87)	—	—	—	—	—	—	(87)	—	(87)
Employee share option arrangements (note 33)	—	—	—	—	—	148	—	—	148	—	148
At 31 December 2008	—	23,556	6,988	879	5,525	2,098	9,499	55,109	103,654	1,679	105,333

2009

	Attributable to owners of the Company										
	Issued capital	Share premium	Equity component of convertible preference shares	Shareholders' contribution	Statutory reserve	Employee equity benefit reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interests	Total equity
	US$'000 (note 31)	US$'000 (note 32(a))	US$'000 (note 32(b))	US$'000 (note 32(c))	US$'000 (note 32(d))	US$'000 (note 32(e))	US$'000 (note 32(f))	US$'000	US$'000	US$'000	US$'000
At 1 January 2009	—	23,556	6,988	879	5,525	2,098	9,499	55,109	103,654	1,679	105,333
Profit for the year	—	—	—	—	—	—	—	12,843	12,843	1,847	14,690
Other comprehensive income: Exchange differences arising on translating foreign operations	—	—	—	—	—	—	128	—	128	—	128
Total comprehensive income for the year	—	—	—	—	—	—	128	12,843	12,971	1,847	14,818
Transfer to statutory reserve fund	—	—	—	—	1,632	—	—	(1,632)	—	—	—
Equity component of preference shares arising from change in terms of conversion feature (note 30)	—	—	47,493	—	—	—	—	—	47,493	—	47,493
Employee share option arrangements (note 33)	—	—	—	—	—	74	—	—	74	—	74
At 31 December 2009	—	23,556	54,481	879	7,157	2,172	9,627	66,320	164,192	3,526	167,718

Consolidated cash flow statements

	Notes	Year ended 31 December 2007	2008	2009
		US$'000	US$'000	US$'000
Operating activities				
Profit before tax		12,822	20,171	20,110
Adjustments for:				
Depreciation of property, plant and equipment	8.1	1,060	2,675	6,508
Amortisation of prepaid land lease payments	8.1	101	212	337
Amortisation of intangible assets	8.1	165	571	3,104
Amortisation of long-term deferred expenses	8.1	—	3	10
Loss on disposal of property, plant and equipment	8.3	45	24	179
Equity-settled share option expense	8.8/9(a)	320	148	74
Fair value (gain)/loss of derivatives, net	8.6	(253)	14,946	15,780
Finance income	8.4	(827)	(622)	(755)
Finance costs	8.5	2,710	5,030	8,737
Share of profits and losses of associates	8.7	45	(39)	(58)
Bad debt provision for trade and other receivables	8.1/21	65	774	1,114
Inventory provision/(reversal of inventory provision)	8.1	281	(133)	1,898
Government grants	8.2	—	(1,269)	(1,644)
Loss on disposal of subsidiaries and non-current assets held for sale, net	8.3	—	13	—
Transaction costs related to initial public offering (the "IPO")	8.1	—	—	1,899
Exchange (gain)/loss, net	8.2/8.3	(66)	42	24
		16,468	42,546	57,317
Increase in trade receivables, other receivables and prepayments		(10,771)	(28,603)	(3,496)
(Increase)/decrease in inventories		(11,037)	13,200	(23,776)
Increase/(decrease) in trade and bills payables, other payables and accruals		5,300	(11,813)	18,427
Income tax paid		(16)	(1,273)	(6,399)
Net cash flows from/(used in) operating activities		(56)	14,057	42,073
Investing activities				
Proceeds from sale of property, plant and equipment		85	186	305
Proceeds from sale of non-current assets held for sale	6.6	—	1,729	—
Proceeds from sale of a disposal group, net of cash disposed of	6.6	—	356	—
Purchase of property, plant and equipment		(7,933)	(7,370)	(12,174)
(Consideration for purchase)/proceeds from sale of available-for-sale financial assets		—	(4,932)	4,932
Proceeds from sale of other financial assets		—	243	—
Prepayment for acquisition of land use rights		—	(878)	(2,747)
Purchase of intangible assets		(5)	(114)	(815)
Acquisition of subsidiaries and other businesses, net of cash acquired	6	—	(17,398)	(20,777)
Share issue cost associated with the acquisition of the WIL Subgroup		—	(87)	—
Payment for the acquisition of an associate	6.2	—	—	(307)
Interest received		695	198	476
Decrease/(increase) in time deposits	24	4,882	(8,699)	6,059
Investment in an associate	18	(462)	—	—
Net cash flows used in investing activities		(2,738)	(36,766)	(25,048)
Financing activities				
Proceeds from issue of Series B preference shares	30	—	41,556	—
Proceeds from issue of Series A-2 preference shares	30	—	5,000	—
Issue cost of preference shares		—	(149)	—
Contribution from a shareholder		879	—	—
Capital contribution from minority shareholders		1,493	—	—
Receipt of government grants	8.2/28	—	2,878	8,712
Professional fees paid for IPO transaction		—	—	(340)
Proceeds from new bank borrowings		14,926	8,012	34,589
Repayment of bank borrowings		(10,980)	(24,183)	(37,138)
Bank loan interest paid	8.5	—	(655)	(974)
Net cash flows from financing activities		6,318	32,459	4,849
Net increase in cash and cash equivalents		3,524	9,750	21,874
Cash and cash equivalents at beginning of year		8,599	11,603	22,085
Effect of foreign exchange rate changes, net		(520)	732	75
Cash and cash equivalents at end of year	24	11,603	22,085	44,034
Analysis of balances of cash and cash equivalents				
Cash at banks and on hand	24	11,466	20,939	44,034
Non-pledged time deposits with original maturity of less than three months when acquired	24	137	1,146	—
Cash and cash equivalents at end of year	24	11,603	22,085	44,034

Balance sheets of the Company

	Notes	31 December 2007 US$'000	31 December 2008 US$'000	31 December 2009 US$'000
NON-CURRENT ASSETS				
Investments in subsidiaries	18	18,062	90,456	90,456
Total non-current assets		18,062	90,456	90,456
CURRENT ASSETS				
Other receivables	21	3,950	21,771	17,495
Prepayments		—	—	475
Cash and short-term deposits	24	151	11,060	5,578
Total current assets		4,101	32,831	23,548
CURRENT LIABILITIES				
Other payables and accruals	26	518	26,860	16,590
Derivative financial instruments	29	570	13,528	—
Total current liabilities		1,088	40,388	16,590
NET CURRENT ASSETS/(LIABILITIES)		3,013	(7,557)	6,958
TOTAL ASSETS LESS CURRENT LIABILITIES		21,075	82,899	97,414
NON-CURRENT LIABILITIES				
Convertible redeemable preference shares	30	22,572	68,354	57,932
Total non-current liabilities		22,572	68,354	57,932
Net assets/(liabilities)		(1,497)	14,545	39,482
EQUITY				
Equity attributable to owners of the Company				
Issued capital	31	—	—	—
Share premium	32(a)	1,009	23,556	23,556
Equity component of convertible preference shares	32(b)	—	6,988	54,481
Employee equity benefit reserve	32(e)	1,950	2,098	2,172
Accumulated losses	32	(4,456)	(18,097)	(40,727)
Total equity		(1,497)	14,545	39,482

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated in the territory of the BVI as a limited liability company on 2 March 2006. The original address of the Company's registered office was P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. On 30 March 2010, the Company was redomiciled to the Cayman Islands. The Company's registered office is now located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KYI-1111, Cayman Islands. The Company is an investment holding company.

2. BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with IFRSs throughout the Relevant Periods, which comprise standards and interpretations approved by the International Accounting Standard Board (the "IASB") and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. All IFRSs effective for accounting periods commencing from 1 January 2007, together with the relevant transitional provisions, have been adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The consolidated financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand ('000) unless otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group for the Relevant Periods. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The acquisition of subsidiaries during the Relevant Periods has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair values of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Application of new and revised IFRSs

The IASB has issued certain new and revised IFRSs which are effective for annual periods beginning on or after 1 January 2007, 1 January 2008 and 1 January 2009. For the purpose of preparing and presenting the Financial Information for inclusion in the Prospectus, the Group has early adopted all these new and revised IFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods.

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the Financial Information:

- IAS 24 (Revised) — Related Party Disclosures[5]
- IAS 27 (Revised) — Consolidated and Separate Financial Statements[1]
- IAS 32 Amendments — Classification of Rights Issues[3]
- IAS 39 Amendment — Eligible Hedged Items[1]
- IFRS 1 (Revised) — First-time Adoption of International Financial Reporting Standards[1]
- IFRS 1 Amendments — The Additional Exemptions for First-time Adopters[2]
- IFRS 1 Amendment — Limited Exemption from Comparatives IFRS 7 Disclosures for First-Time Adopters[4]
- IFRS 2 Amendments — Group Cash-settled Share-based Payment Transactions[2]
- IFRS 3 (Revised) — Business Combinations[1]
- IFRS 5 Amendments (included in Improvements to IFRSs 2008) — Plan to sell the controlling interest in subsidiary[1]
- IFRS 9 — Financial Instruments[6]
- IFRIC 14 Amendments — Prepayments of a Minimum Funding Requirement [5]
- IFRIC 17 — Distributions of Non-cash Assets to Owners[1]
- IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments [4]

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2010

3 Effective for annual periods beginning on or after 1 February 2010

4 Effective for annual periods beginning on or after 1 July 2010

5 Effective for annual periods beginning on or after 1 January 2011

6 Effective for annual periods beginning on or after 1 January 2013

Apart from the above, the IASB has issued Improvements to IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard and interpretation.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs and IFRICs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operation and financial position.

Subsidiaries

A subsidiary is an entity of which financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Business combinations and goodwill

The cost of an acquisition is measured as the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets acquired and liabilities and contingent liabilities assumed as at the date of acquisition. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset initially measured at cost and subsequently at cost less any accumulated impairment losses. The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at each balance sheet date. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Investments in associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

The financial statements of the associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The results of associates are included in the Company's income statements to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Property, plant and equipment

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the following estimated useful lives:

Buildings	20 to 30 years
Leasehold improvements	3 years
Plant, machinery and equipment	3 to 10 years
Furniture and fixtures	5 years
Motor vehicles	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at least at each financial year end.

Construction in progress represents properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. These properties are reclassified to the appropriate category of property, plant and equipment as the case may be when completed and ready for use.

Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life on the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Computer software
Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life ranging from one to five years.

Customer relationships
Contractual customer relationships are stated at cost and are amortised on the straight-line basis over their estimated useful lives ranging from 6 months to five years.

Trademarks
Trademarks are accounted for as intangible assets with indefinite useful lives and are not amortised. They are stated at cost less any impairment provision.

Patents
The patents were granted for period of 10 years by the relevant government agency with the option of renewal at the end of this period. Patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5-7 years.

Research and development costs
All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the project; and
- the ability to measure reliably the expenditure during development.

Product development expenditure which does not meet these criteria is expensed when incurred.

Following initial recognition of the development expenditure as an asset, the cost model requires the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit of five years.

In-process research and development projects ("IPR&D projects")
IPR&D projects acquired from a business combination are initially recognised at fair value. Subsequent to the initial recognition, any subsequent expenditure incurred after the acquisition of the project is accounted for as follows:

- Recognised as an expense when incurred if it is research expenditure;
- Recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as development cost as described above;
- Added to the carrying amount of the acquired IPR&D projects if it is development expenditure that satisfies the recognition criteria for recognition as development costs as described above;

Prepaid land lease payments
Prepaid land lease payments represent prepayments for acquiring rights to use land in Mainland China for 43-50 years. Land use rights granted are recognised initially at acquisition cost. Land use rights of the Group are held for own use. They are stated at cost, less accumulated amortisation and any impairment losses. Amortisation is charged to the income statement on the straight-line basis over the period of the land use rights.

Impairment of non-financial assets other than goodwill
Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previous recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previous recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss be recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Other financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, unquoted financial instruments, and derivative financial instruments.

Subsequent measurement
The subsequent measurement of financial assets depends on the classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial assets
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through

profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previous recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities including trade and other payables and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Convertible redeemable preference shares
Convertible redeemable preference shares with embedded derivative features are split into liability and derivative components according to their fair values for measurement purposes. On issuance of the preference shares, the fair value of embedded derivative is determined based on a valuation, and the amount is carried as a current liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The embedded derivative is remeasured at each balance sheet date and any gains or losses arising from change in fair value are recognised in the consolidated income statements.

Transaction costs are apportioned between the fair value of the host liability instrument and embedded derivative of the convertible redeemable preference shares based on the allocation of proceeds to the liability and derivative components when the instruments are initial recognised . The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay cash flows in full without material delay to a third party under a "pass through" arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts recognised in the income statement.

Derivative financial instruments
Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement.

Inventories
Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated balance sheet, cash and short-term deposits comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount is recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statement.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date: whether fulfilment of the arrangement is dependent on the issue of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. The Group had no financial leases during the relevant periods or prior years.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on despatch of the goods.

Interest income

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Rental income

Rental income arising from operating leases is recognised on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values of share options are determined by management using the Black-Scholes valuation model (the "BS" model), further details of which are disclosed in note 33 to the Financial Information.

The cost of equity-settled transactions with employees is recognised, together with a corresponding increase in equity, presented as the employee equity benefit reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recongised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Other employee benefits

Defined contribution plan for PRC employees

Pursuant to the relevant PRC laws and regulations, each of the PRC subsidiaries of the Group is required to participate in a defined contribution plan organised by the local municipal government whereby the Group is required to contribute a certain percentage of the salaries of its employees to the defined contribution plan. The only obligation of the Group with respect to the retirement benefit scheme is to pay the ongoing required contributions. Contributions made to the defined contribution plan are charged to the income statement as incurred.

Taxes

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

(a) where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(b) receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

Dividends

Dividends proposed are classified as a separate allocation of retained earnings within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting and declared by the board of directors.

Foreign currency translation

These financial statements are presented in US$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the subsidiaries incorporated in the PRC (except for Hong Kong TYU) are Renminbi ("RMB") and those of subsidiaries incorporated other than in the PRC (collectively referred to as "Foreign Subsidiaries") are currencies other than the US$. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into US$ at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve, a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of Foreign Subsidiaries are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of Foreign Subsidiaries which arise throughout the year are translated into US$ at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Recognition of a deferred tax liability for withholding taxes

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from its 2008 or thereafter earnings, shall be subject to withholding corporate income tax at a rate of 10%. The Group carefully evaluates the necessity of dividend distribution of its PRC subsidiaries out of profits earned after 1 January 2008 and makes decisions on such dividend distributions based on the senior management's judgement. For details, please refer to note 10 to the Financial Information.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Corporate income taxes

Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary difference can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 10 to the Financial Information.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets and the expected period of benefits.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of non-financial assets other than goodwill

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow injections are discounted using as appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test significantly.

Fair value of unlisted equity instruments

The unlisted equity instruments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence they are subject to uncertainty.

Estimation of fair value of derivative financial instruments

The fair values of derivative financial liabilities are reassessed at each balance sheet date with any movement recognised in the income statement. In estimating the fair values of derivative financial liabilities, the Group uses independent valuations which are based on various assumptions and estimates that are detailed in note 37.

Recognition of equity-settled share option expenses

As further disclosed in note 33, the Company has granted share options to its employees. The directors have used the BS model to determine the total fair value of the options granted, which is expensed over the vesting period. Significant estimates, such as the probability of the success of initial public offering, risk-free rate, dividend yield, expected volatility and expected life of options, are required to be made by the directors as the parameters for applying the BS model. The Company has engaged LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent appraiser, to perform an appraisal of the fair value of the Company's common shares at the grant date.

The grant of equity instruments might be conditional upon satisfying specified vesting condition, (i.e. the service period). Significant management judgement is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of equity-settled share option expenses. Determining the number of equity instruments that eventually vest requires management to make assumptions regarding the profit forecast and likelihood of a successful initial public offering, and hence they are subject to uncertainty.

Useful lives of intangible assets
Management estimates the expected future cash flows from the assets to determine the useful lives of intangible assets. Trademarks are estimated to have indefinite useful lives based on the senior management's best estimate. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indication exists.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) Lamp products segment produces a range of light bulbs and tubes for compact fluorescent lamps, HID lamps, fluorescent lamps, halogen lamps and LED lamps;

(b) Luminaire products segment produces complete lighting units that consists of a lighting fixture, a lamp, an outer shell for lamp alignment and protection, and a lighting electronics appliance; and

(c) Lighting electronic products segment produces transformers, electronic and inductive ballasts for fluorescent and HID lamps, and HID ballast boxes.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on gross profit of reportable segment, which is a measure of normal gross profit without adjustments.

Segment assets exclude investments in associates, deferred tax assets, cash and short-term deposits, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Capital expenditure consist of additions to property, plant and equipment, prepaid land lease payments, goodwill, intangible assets (other than goodwill), investments in associates and long-term deferred expenditure.

Operating segments

	Year ended 31 December 2007				
	Lamp products	Luminaire products	Lighting electronic products	Eliminations	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue:					
Revenue from external customers	24,407	90,143	15,518	—	130,068
Intersegment	—	—	—	—	—
Total revenue	24,407	90,143	15,518	—	130,068
Results	4,838	19,970	6,088		30,896
Elimination of intersegment profit	—	—	—	—	—
Results derived from external customers	4,838	19,970	6,088	—	30,896
Interest income					827
Other unallocated income					
Trademark licence fee					1,253
Rental income					292
Exchange gain, net					66
Fair value gain of a warrant					253
Other					580
					2,444
Unallocated expenses					
Loss on disposal of property, plant and equipment					(45)
Staff costs					(4,221)
Advertising and promotion expenses					(5,865)
Freight					(2,967)
Amortisation and depreciation					(713)
Equity-settled share option expense					(320)
Other unallocated head office and corporate expenses					(4,459)
					(18,590)
Finance costs					(2,710)
Share of loss of an associate					(45)
Profit before tax					12,822
Income tax credit					54
Profit for the year					12,876
Assets	16,514	71,721	8,335	(10,217)	86,353
Unallocated assets:					
Investments in an associate					432
Deferred tax assets					54
Other receivables					5,919
Cash and short-term deposits					12,221
Other corporate assets including property and equipment and intangible assets					16,969
Total assets					121,948
Capital expenditure	542	3,662	478	—	4,682
Unallocated capital expenditure associated with head office and corporate assets					3,559
Total expenditure					8,241
Depreciation and amortisation	22	536	55	—	613
Unallocated depreciation and amortisation					713
Total depreciation and amortisation					1,326

	Year ended 31 December 2008				
	Lamp products	Luminaire products	Lighting electronic products	Eliminations	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue:					
Revenue from external customers	79,947	152,965	23,503	—	256,415
Intersegment	5,675	—	—	(5,675)	—
Total revenue	85,622	152,965	23,503	(5,675)	256,415
Results	17,512	37,405	8,179	—	63,096
Elimination of intersegment profit	(188)	—	—	—	(188)
Results derived from external customers	17,324	37,405	8,179	—	62,908
Interest income					622
Other unallocated income					
Government grants					1,269
Trademark licence fee					1,844
Distribution commission					731
Rental income					546
Other					627
					5,017
Unallocated expenses					
Advertising and promotion expenses					(4,207)
Freight					(5,658)
Fair value loss from a warrant					(1,418)
Fair value loss on convertible redeemable preference shares					(13,528)
Loss on disposal of property, plant and equipment					(24)
Donation					(462)
Exchange loss, net					(42)
Staff costs					(7,891)
Amortisation and depreciation					(2,057)
Equity-settled share option expense					(148)
Other unallocated head office and corporate expenses					(7,950)
					(43,385)
Finance costs					(5,030)
Share of profits of associates					39
Profit before tax					20,171
Income tax charge					(2,103)
Profit for the year					18,068
Assets	117,499	107,795	13,735	(7,857)	231,172
Unallocated assets:					
Investments in associates					808
Deferred tax assets					543
Other receivables					11,803
Cash and short-term deposits					31,402
Other corporate assets including property, plant and equipment and intangible assets					22,969
Total assets					298,697
Capital expenditure	77,276	3,014	587	—	80,877
Unallocated capital expenditure associated with head office and corporate assets					2,196
Total expenditure					83,073
Depreciation and amortisation	830	518	56	—	1,404
Unallocated depreciation and amortisation associated with head office and corporate assets					2,057
Total depreciation and amortisation					3,461

	Year ended 31 December 2009				
	Lamp products	Luminaire products	Lighting electronic products	Eliminations	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue:					
Revenue from external customers	118,048	153,799	33,923	—	305,770
Intersegment	4,214	—	2,304	(6,518)	—
Total revenue	122,262	153,799	36,227	(6,518)	305,770
Results	35,387	41,841	7,799	—	85,027
Elimination of intersegment profit	(977)	—	(20)	—	(997)
Results derived from external customers	34,410	41,841	7,779	—	84,030
Interest income					755
Other unallocated income:					
Government grants					1,644
Trademark licence fee					2,249
Distribution commission					2,406
Rental income					423
Other					937
					7,659
Unallocated expenses:					
Advertising and promotion expenses					(8,194)
Freight					(6,141)
Net fair value loss on convertible redeemable preference shares					(15,780)
Loss on disposal of property, plant and equipment					(179)
Loss on disposal of scrap materials					(240)
Donation					(56)
Exchange loss, net					(24)
Research and development expense					(4,610)
Staff costs					(11,358)
IPO transaction costs					(1,899)
Amortisation and depreciation					(5,317)
Equity-settled share option expense					(74)
Other unallocated head office and corporate expenses					(9,783)
					(63,655)
Finance costs					(8,737)
Share of profits of an associate					58
Profit before tax					20,110
Income tax charge					(5,420)
Profit for the year					14,690
Assets	125,300	145,825	23,530	(13,301)	281,354
Unallocated assets:					
Investments in associates					540
Deferred tax assets					1,329
Other receivables					6,858
Cash and short-term deposits					47,292
Other corporate assets including property, plant and equipment and intangible assets					18,341
Total assets					355,714
Capital expenditure	6,789	14,342	4,086	—	25,217
Unallocated capital expenditure associated with head office and corporate assets					1,841
Total expenditure					27,058
Depreciation and amortisation	2,622	1,737	283	—	4,642
Unallocated depreciation and amortisation associated with head office and corporate assets					5,459
Total depreciation and amortisation					10,101

(b) Geographical information

	Year ended 31 December 2007		
	Mainland China	Overseas	Consolidated
	US$'000	US$'000	US$'000
Revenue			
Sales to external customers	119,068	11,000	130,068
Non-current assets*	66,396	13	66,409

	Year ended 31 December 2008		
	Mainland China	Overseas	Consolidated
	US$'000	US$'000	US$'000
Revenue			
Sales to external customers	211,506	44,909	256,415
Non-current assets*	150,233	14	150,247

	Year ended 31 December 2009		
	Mainland China	Overseas	Consolidated
	US$'000	US$'000	US$'000
Revenue			
Sales to external customers	242,593	63,177	305,770
Non-current assets*	166,550	268	166,818

The revenue information above is based on the location of customers.

* Non-current assets for this purpose consist of property, plant and equipment, prepaid land lease payments, goodwill, intangible assets (other than goodwill), investments in associates and long-term deferred expenditure.

6. BUSINESS COMBINATIONS AND DISPOSAL OF SUBSIDIARIES

6.1 Acquisition of World Through and its wholly-owned subsidiaries

Pursuant to the board resolution of the Company and the Share Purchase Agreement (the "WIL SPA") dated 14 August 2008, which was entered into by the Company, World Through, Signkey Group Limited ("Signkey"), a limited liability company incorporated in the BVI, and Mr. Wu Jiannong, who holds a 85% equity interest in Signkey, the Company acquired from Signkey a 100% equity interest in World Through, together with its wholly-owned subsidiaries including Jiangshan Phoebus, Zhangpu Phoebus, Quzhou Guoguang Electronic Co., Ltd. ("Quzhou Guoguang[#]") and Sunny (collectively referred to as the "WIL Subgroup"), at a cash consideration of US$49,314,000 plus 326,930 common shares of the Company which are subject to adjustments. The acquisition was completed on 29 August 2008.

[#] Quzhou Guoguang was an investment holding company and was deregistered on 16 February 2009.

The fair values of the identifiable assets and liabilities of the WIL Subgroup at the date of acquisition, as determined by LCH, and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	Previous carrying value
	US$'000	US$'000
Property, plant and equipment (note 14)	26,387	20,407
Prepaid land lease payments (note 15)	3,884	1,795
Intangible assets (note 17)	13,272	429
Non-current assets held for sale (note 6.6)	1,486	1,486
Net assets of a disposal group classified as held for sale (note 6.6)	420	420
Deferred tax assets (note 10)	17	17
Long-term deferred expenditure	87	87
Inventories	12,940	11,028
Trade and other receivables	34,855	34,855
Prepayments	1,760	1,760
Cash and bank balances	5,761	5,761
Deferred tax liabilities (note 10)	(394)	(394)
Trade and bills payables	(14,858)	(14,858)
Other payables and accruals	(18,957)	(18,957)
Interest-bearing loans	(20,192)	(20,192)
Income tax payables	(767)	(767)
Fair value of identifiable assets acquired and liabilities assumed, excluding deferred tax arising from the acquisition	45,701	22,877
Deferred tax liabilities (note 10)	(4,106)	—
Fair value of identifiable assets acquired and liabilities assumed	41,595	22,877
Goodwill arising on acquisition of the WIL Subgroup (note 16)	30,799	
Total consideration	72,394	

The cost of the combination was US$72,394,000 which comprised the issue of 326,930 equity instruments with the fair value of US$22,634,000, a cash consideration of US$49,314,000 and costs directly attributable to the business combination of US$446,000. 326,930 common shares were issued to Signkey on 27 August 2008, and the first tranche of the cash consideration of US$23,314,000 was paid in 2008.

The fair value of the share consideration was determined using an income approach, i.e., by discounting the future cash flows of the Group to the present value at the acquisition date. The discounted cash flow is determined based on the most recent financial forecasts for the five years (years 2009 — 2013). Management adopted an average growth rate of 11% by reference to past experience, the industry growth rate and external sources of information. The future cash flow was discounted to its present value by a discount rate of 13.7%. The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is determined with reference to the long-term average growth rate of the lighting industry.

The significant assumptions used to determine the fair value of the 326,930 common shares are set out below:

Raw materials price inflation — Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Growth rates — Rates are estimated with reference to published industrial research.

Discount rates — The discount rates used are after tax and reflect specific risks related to the Group.

A summary of business combination cost and cash outflow related to the business combination is set out below:

Cost	US$'000
Shares issued, at fair value	22,634
Cash consideration associated with the acquisition	49,314
Other costs directly attributable to the business combination	446
Total	72,394

Cash outflow on acquisition:	US$'000
Net cash acquired with the WIL Subgroup	6,362
Cash paid	(23,760)
Net cash outflow for the year ended 31 December 2008	(17,398)

In 2009, a further US$13,000,000 was paid in respect of the total cash consideration.

From the date of acquisition, the WIL Subgroup has contributed US$7,241,000 to the profit for the year ended 31 December 2008 of the Group. If the combination had taken place at the beginning of the Relevant Periods, the profit for the years ended 31 December 2007 and 2008 of the Group would have been approximately US$23,770,000 and US$20,657,000, respectively, and revenue of the Group for the years ended 31 December 2007 and 2008 would have been US$196,351,000 and US$302,491,000, respectively.

6.2 Acquisition of Shanghai Arcata

The Group acquired a 100% equity interest in Shanghai Arcata by means of a step acquisition as set out below:

On 7 November 2008, Jiangshan Phoebus entered into an equity transfer agreement with Shanghai Huihui Electronics Co., Ltd. to acquire a 26% equity interest in Shanghai Arcata at a cash consideration of RMB2,099,000 (equivalent to US$307,000). Pursuant to the equity transfer agreement, Jiangshan Phoebus was entitled to the rights and obligations associated with the 26% equity interest in Shanghai Arcata starting on or after 7 November 2008. The consideration was paid on 20 February 2009.

On the same day, Max Rich, a company which was incorporated in Hong Kong on 18 September 2008 and was wholly owned by Mr. Hu Jianli, an independent individual, entered into an equity transfer agreement with Arcata Universal Limited and Mr. Kevin J. Yang to acquire from Arcata Universal Limited and Mr. Kevin J. Yang 53% and 21% equity interests in Shanghai Arcata, respectively, at an aggregate cash consideration of US$740,000. Pursuant to the equity transfer agreement, Max Rich was entitled to the rights and obligations associated with the 74% equity interest in Shanghai Arcata beginning on 7 November 2008.

On 13 November 2008, World Through entered into a share purchase agreement with Mr. Hu Jianli, the sole shareholder of Max Rich, to acquire a 100% equity interest in Max Rich including its equity interest in Shanghai Arcata at a consideration of RMB15,201,000 (equivalent to US$2,225,000). The consideration was paid and the acquisition was completed on 20 February 2009. Max Rich has no activities other than holding the equity interest in Shanghai Arcata.

As a result of the above step acquisition, Shanghai Arcata was accounted for as an associate of the Group from 7 November 2008 to 20 February 2009 and then a subsidiary starting from 21 February 2009.

The fair values of the identifiable assets and liabilities of Shanghai Arcata as determined by Jones Lang LaSalle Sallmanns ("Sallmanns"), an independent appraiser, and the corresponding carrying amounts before fair value adjustments at each exchange transaction date in the step acquisition as at 7 November 2008 and 20 February 2009, were as follows:

	As at 7 November 2008		As at 20 February 2009	
	Fair value recognised on acquisition	Previous carrying value	Fair value recognised on acquisition	Previous carrying value
	US$'000	US$'000	US$'000	US$'000
Property, plant and equipment (note 14)	1,228	1,101	1,238	1,125
Intangible assets (note 17)	1,775	—	1,770	—
Inventories	1,756	1,756	1,991	1,991
Trade receivables	2,735	2,735	3,480	3,480
Cash and bank balances	592	592	1,526	1,526
Other current assets	207	207	189	189
Trade payables	(2,563)	(2,563)	(3,614)	(3,614)
Other payables	(2,637)	(2,637)	(4,016)	(4,016)
Interest-bearing loans	(1,317)	(1,317)	(512)	(512)
Other liabilities	(191)	(191)	—	—
Fair value of identifiable assets acquired and liabilities assumed, excluding deferred tax liabilities arising from the acquisition	1,585	(317)	2,052	169
Deferred tax liabilities arising from the step acquisition (note 10)	(476)		(471)	
Fair value of identifiable assets acquired and liabilities assumed	1,109		1,581	
Percentage of equity interest acquired	26%		74%	
Share of fair values of Shanghai Arcata's identifiable assets and liabilities, net	288		1,170	
Goodwill arising on the acquisition (note 16)	19		1,055	
Consideration paid	307		2,225	
Total goodwill (note 16)	1,074			
Total consideration	2,532			

The total cost of the business combination was US$2,225,000.

Cash outflow on acquisition:	US$'000
Net cash acquired with Shanghai Arcata	1,526
Cash paid	(2,225)
Net cash outflow for the year ended 31 December 2009	(699)

From the date of acquisition, Shanghai Arcata has contributed US$558,000 to the profit for year ended 31 December 2009 of the Group. If the combination had taken place at the beginning of the Relevant Periods, the profit for the years ended 31 December 2007 and 2008 of the Group would have been approximately US$12,478,000 and US$18,221,000, respectively, and the revenue of the Group for the years ended 31 December 2007 and 2008 would have been approximately US$140,318,000 and US$269,372,000, respectively.

6.3 Acquisition of Chongqing Lianxin Lighting Co., Ltd. ("Chongqing Lianxin")

On 27 December 2008 and 31 December 2008, Chongqing NVC entered into agreements with Chongqing Lianxin to acquire all inventories and fixed assets of Chongqing Lianxin at a consideration of RMB10,923,000 (equivalent to US$1,598,000) and RMB35,842,000 (equivalent to US$5,247,000), respectively. The exchange transactions were completed on 2 January 2009. Furthermore, most of the employees of Chongqing Lianxin were transferred to Chongqing NVC and signed labour contracts with Chongqing NVC on 1 January 2009. The senior management of the Group considered the transaction as a combination of the operation of Chongqing Lianxi with Chongqing NVC and accordingly accounted for the transaction as a business combination.

The fair values of the identifiable assets acquired from Chongqing Lianxin as determined by Sallmanns and the corresponding carrying amounts at the exchange transaction date immediately before the acquisition as at 2 January 2009, which was extracted from the management accounts of Chongqing Lianxin, were as follows:

	Fair value recognised on acquisition	Previous carrying value
	US$'000	US$'000
Property, plant and equipment (note 14)	2,898	5,045
Inventories	1,367	1,367
Fair value of identifiable assets acquired, excluding deferred tax assets and related deductible input value added tax arising from the acquisition	4,265	6,412
Input value added tax	434	
Deferred tax assets (note 10)	537	
Fair value of identifiable assets acquired	5,236	
Goodwill arising on the acquisition (note 16)	1,610	
Total consideration	6,846	

The total cost of the business combination was US$6,846,000, out of which, cash of US$5,247,000 was paid in 2009 and the remaining balance of US$1,598,000 was offset with the Group's prepayments to Chongqing Lianxin.

6.4 Acquisition of Huizhou Huixin Hardware Co., Ltd. ("Huizhou Huixin")

Huizhou NVC acquired all fixed assets of Huizhou Huixin, an independent company which principally engaged producing ceiling lights, at a consideration of RMB7,730,000 (equivalent to US$1,132,000) on 17 June 2009 and absorbed the majority of skilled workers and administrative staff of Huizhou Huixin on the same day. The senior management considered the transaction as a combination of the operations of Huizhou Huixin and Huizhou NVC and accordingly accounted for the transaction as a business combination.

The fair values of the identifiable assets of Huizhou Huixin as determined by Sallmanns and the corresponding carrying amounts at the exchange transaction date of 17 June 2009 immediately before the acquisition, which were extracted from the management accounts of Huizhou Huixin, were as follows:

	Fair value recognised on acquisition	Previous carrying value
	US$'000	US$'000
Property, plant and equipment (note 14)	1,035	1,132
Fair value of identifiable assets acquired	1,035	1,132
Goodwill arising on the acquisition (note 16)	97	
Total consideration	1,132	

The total cost of the combination was US$1,132,000 and was fully paid in 2009.

6.5 Acquisition of Chongqing Tianyi Lighting Electronics Co., Ltd. ("Chongqing Tianyi")

Chongqing NVC acquired all inventories, machinery and equipment of Chongqing Tianyi, a previous supplier with an 85% equity interest owned by Mr. Wang Shaoling, a key management personnel of the Group, at considerations of RMB7,100,000 (equivalent to US$1,040,000) and RMB10,668,000 (equivalent to US$1,562,000) on 31 May 2009 and 20 October 2009, respectively. Meanwhile, Chongqing NVC absorbed the majority of skilled workers and administrative staff of Chongqing Tianyi. The senior management considered the transaction as a combination of the operations of Chongqing Tianyi and Chonqing NVC and accordingly accounted for the transaction as a business combination.

The fair values of the identifiable assets of Chongqing Tianyi as determined by Sallmanns and the corresponding carrying amounts at the exchange transaction date on 20 October 2009 immediately before the acquisition, which were extracted from the management accounts of Chongqing Tianyi, were as follows:

	Fair value recognised on acquisition	Previous carrying value
	US$'000	US$'000
Property, plant and equipment (note 14)	1,146	1,562
Inventories	889	889
Fair value of identifiable assets acquired, excluding deferred tax assets arising from the acquisition	2,035	2,451
Input value added tax	151	
Deferred tax assets (note 10)	104	
Fair value of identifiable assets acquired	2,290	
Goodwill arising on the acquisition (note 16)	312	
Total consideration	2,602	

The total consideration was US$2,602,000, out of which, cash of US$699,000 was paid in 2009 and the remaining balance of US$1,903,000 was offset with the Group's prepayments to Chongqing Tianyi.

6.6 Disposal of subsidiaries and non-current assets held for sale

Pursuant to the WIL SPA entered into on 14 August 2008, upon the closing of the Company's acquisition of the WIL Subgroup, the WIL Subgroup shall spin off all of its equity investments (the "Spin-off Assets"). The Spin-off Assets mainly included the WIL Subgroup's equity investments in certain subsidiaries, jointly-controlled entities and associates which are engaged in businesses other than that of energy saving lamps. The relevant subsidiaries acquired with an exclusive view of disposal form a disposal group classified as held for sale and the investments in jointly-controlled entities and associates are classified as non-current assets held for sale at the acquisition date of 29 August 2008.

The non-current assets held for sale with an aggregate carrying amount of approximately US$1,486,000 as at the disposal date were transferred to Zhejiang Tonking Technology Co., Ltd. ("Zhejiang Tonking"), a company controlled by Mr. Wu Jiannong, on 8 September 2008 at a consideration of RMB11,811,000 (equivalent to US$1,729,000), which gave rise to a gain on disposal of US$243,000.

The disposal group classified as held for sale comprised Hangzhou Tongren Software Co., Ltd. ("Hangzhou Tongren") and Jiangshan Youhe Machinery Co., Ltd. ("Jiangshan Youhe"), in which Sunny originally held 51% and 80% equity interests, respectively. On 8 September 2008, Sunny transferred its equity interests in the two subsidiaries to Zhejiang Tonking at an aggregate cash consideration of RMB6,538,000 (equivalent to US$957,000). The carrying amounts of the major classes of assets and liabilities of the disposal group immediately before the disposal are as follows:

	US$'000
Property, plant and equipment	186
Inventories	1,074
Cash and bank balances	601
Trade receivables	275
Prepayments and other receivables	150
Trade payables	(1,164)
Other payables and accruals	(443)
Due to related companies	(383)
Others	337
Net assets of a disposal group classified as held for sale	633
Less: minority interests	(213)
Net assets of a disposal group classified as held for sale attributable to the WIL Subgroup	420
Add : eliminated intercompany balances	793
	1,213

The operating results and net cash flows of the disposal group from 29 August 2008, the acquisition date, to 8 September 2008, the disposal date, are considered by senior management of the Group as insignificant and have not be recognised by the Group.

The disposal gave rise to a loss of US$256,000.

The net cash inflow arising on the disposal of subsidiaries is set out below:

	US$'000
Cash consideration received	957
Cash disposed of	(601)
Net cash inflow	356

7. REVENUE

Revenue represents net invoice value of goods sold, after allowances for returns and trade discounts.

8. OTHER INCOME AND EXPENSES

8.1 The following items were included in the consolidated income statements:

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Cost of inventories recognised as an expense	92,550	177,925	178,693
Depreciation*	1,060	2,675	6,508
Amortisation of intangible assets*	165	571	3,104
Inventory provision/(reversal of inventory provision)	281	(133)	1,898
Minimum lease payments*	178	600	1,202
Amortisation of prepaid land lease payments	101	212	337
Amortisation of long-term deferred expenses	—	3	10
Auditors' remuneration	183	385	383
Bad debt provision	65	774	1,114
IPO transaction costs	—	—	1,899
*Included in cost of sales:			
Depreciation	613	1,248	3,956
Amortisation of intangible assets	—	156	686
Minimum lease payments	50	181	317

8.2 Other income and gains

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Government grants(i)	—	1,269	1,644
Trademark licence fee	1,253	1,844	2,249
Distribution commission	—	731	2,406
Rental income	292	546	423
Exchange gain, net	66	—	—
Fair value gain of a warrant(ii)	253	—	—
Other	580	627	937
	2,444	5,017	7,659

(i) The amount mainly represented subsidies granted to the Group's PRC subsidiaries by the local government as incentives for export sales, technology research and development, recruitment of local workers, as well as financial support to the Group's PRC subsidiaries for the expansion of production capacity of certain products such as T5 energy saving lamps. Government grants received which are associated with asset acquisitions are recognised as deferred income in the balance sheet and amortised over the estimated useful lives of the associated assets.

(ii) Please refer to note 8.6(i).

8.3 Other expenses

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Loss on disposal of property, plant and equipment	45	24	179
Loss on disposal of scrap materials	—	—	240
Donation	—	462	56
Loss on disposal of subsidiaries and non-current assets held for sale, net (note 6.6)	—	13	—
Exchange loss, net	—	42	24
Others	119	171	134
	164	712	633

8.4 Finance income

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Interest income from bank deposits	306	171	476
Interest income on loans and receivables (note 21(b))	318	380	150
Other interest income	203	71	129
	827	622	755

8.5 Finance costs

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Interest expense on convertible redeemable preference shares (note 30)	2,364	4,375	7,763
Bank loan interest	346	655	974
	2,710	5,030	8,737

8.6 Net fair value loss on convertible redeemable preference shares and warrant

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Fair value loss of a warrant(i)	—	1,418	—
Fair value loss of embedded derivatives of Series A-1/Series B preference shares, net(ii)	—	13,528	18,277
Fair value gain arising from the modification of terms of Series A-1/Series B preference shares, net(iii)	—	—	(2,497)
	—	14,946	15,780

(i) The amount represented the fair value change of a warrant issued to SB Asia Investment Fund II L.P. ("SAIF"), an exempted limited partnership registered in the Cayman Islands, in August 2006 (the "Warrant"). The Warrant was exercised on 1 September 2008 by SAIF, and was converted to equity at the fair value of US$1,988,000 as at the exercise date (note 29). The fair values of the Warrant at 31 December 2007 and the exercise date were determined by LCH using the Binomial Option Pricing Model.

(ii) The amount represented fair value changes of the embedded derivatives of Series A-1/Series B preference shares issued. Please refer to note 30 for details.

(iii) As further disclosed in note 30, the holders of Series A-1/Series B preference shares signed a waiver letter (the "Waiver Letter") on 31 December 2009 to waive their entitlement to adjustments to conversion price of Series A-1/Series B preference shares and their rights to receive the portion of the redemption price in excess of 100% of the original issue price of Series A-1/Series B preference shares. The Waiver Letter gave rise to an extinguishment of the existing liabilities of the compound instruments, and the compound instruments under revised terms were newly recognised as at 31 December 2009. The difference between the fair value of the compound instruments under old terms and new terms was credited to the income statement.

8.7 Share of profits and losses of associates

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Share of profits of Shanghai Arcata	—	20	—
Share of profits/(losses) of Mianyang Leici Electronic Technology Co., Ltd. ("Leici")	(45)	19	58
	(45)	39	58

8.8 Employee benefit expenses (excluding directors' remuneration (note 9))

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Wages and salaries	7,811	18,049	33,763
Social insurance and welfare expenses	1,339	2,803	5,335
Equity-settled share option expense (note 33)	276	128	63
	9,426	20,980	39,161

8.9 Research and development costs

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Deferred expenditure amortised	—	—	1,764
Current year expenditure	581	1,264	4,610
	581	1,264	6,374

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of the directors' remuneration during the Relevant Periods are as follows:

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	82	149	174
Discretionary bonuses	88	3	475
Equity-settled share option expense (note 33)	44	20	11
Pension scheme contributions	—	9	11
	214	181	671

During the Relevant Periods, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 33 to the Accountants' Report. The fair values of such options which have been recognised in the income statement over the vesting periods, were determined as at the dates of grant and the amounts included in the consolidated income statements for the Relevant Periods are included in the above directors' remuneration disclosures.

The names of the directors and their remuneration for the Relevant Periods are set out below:

	Year ended 31 December 2007				
	Salaries, allowances and benefits in kind	Discretionary bonuses	Equity-settled share option benefits	Pension scheme contributions	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Directors					
Mr. Wu Changjiang	33	42	—	—	75
Mr. Xia Lei	33	27	—	—	60
Mr. Mu Yu	16	19	44	—	79
Mr. Yan Andrew Y	—	—	—	—	—
Mr. Lin Ho-Ping	—	—	—	—	—
	82	88	44	—	214

	Year ended 31 December 2008				
	Salaries, allowances and benefits in kind	Discretionary bonuses	Equity-settled share option benefits	Pension scheme contributions	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Directors					
Mr. Wu Changjiang	57	—	—	3	60
Mr. Xia Lei	53	—	—	2	55
Mr. Mu Yu	35	3	20	3	61
Mr. Yan Andrew Y	—	—	—	—	—
Mr. Wu Jiannong	4	—	—	1	5
Ms. Hui Ming Yunn, Stephanie	—	—	—	—	—
Mr. Lin Ho-Ping	—	—	—	—	—
	149	3	20	9	181

	Year ended 31 December 2009				
	Salaries, allowances and benefits in kind	Discretionary bonuses	Equity-settled share option benefits	Pension scheme contributions	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Directors					
Mr. Wu Changjiang	57	170	—	3	230
Mr. Xia Lei	53	—	—	1	54
Mr. Mu Yu	37	141	11	3	192
Mr. Yan Andrew Y	—	—	—	—	—
Mr. Wu Jiannong	27	164	—	4	195
Ms. Hui Ming Yunn, Stephanie	—	—	—	—	—
Mr. Lin Ho-Ping	—	—	—	—	—
	174	475	11	11	671

(b) Five highest paid employees

An analysis of the five highest paid employees within the Group during the Relevant Periods is as follows:

	Number of employees		
	Year ended 31 December		
	2007	2008	2009
Directors	—	—	3
Non-director employees	5	5	2
	5	5	5

The five highest paid employees during the year ended 31 December 2009 included three directors (2008: nil; 2007: nil), details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining two (2008: 5; 2007: 5) non-director, highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Salaries, allowances and benefits in kind	203	446	161
Discretionary bonuses	102	196	201
Equity-settled share option expense	124	20	11
Retirement benefit contributions	2	1	3
	431	663	376

The headcount of the above non-director, highest paid individuals with remuneration falling within the range from nil to HK$1,000,000 (equivalent to US$128,000) for the years ended 31 December 2007, 2008 and 2009 was 4, 2 and nil, respectively and that with remuneration falling within the range from HK$1,000,001 to HK$1,500,000 (equivalent to US$192,000) for the years ended 31 December 2007, 2008 and 2009 was 1, 3 and 2, respectively.

During the Relevant Periods, share options were granted to non-director highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 33 to the Accountants' Report. The fair values of such options, which have been recognised to the income statement over the vesting periods, were determined as at the dates of grant and the amounts included in the consolidated income statements for the Relevant Periods are included in the above non-director highest paid employees' remuneration disclosures.

During the Relevant Periods, no directors or any of the non-director highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors or any of the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX CHARGES/(CREDIT)

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Current income tax:			
— Current income tax	47	2,654	6,119
Deferred income tax:			
— Relating to origination and reversal of temporary differences	(101)	(551)	(699)
Income tax charges/(credit) reported in the consolidated income statements	(54)	2,103	5,420

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies within the Group are domiciled and operate. The Company and World Through being investment holding companies incorporated in the BVI were not subject to income tax. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods. No provision for corporation income tax has been made by UK NVC as UK NVC suffered tax losses for the Relevant Periods.

The Company's subsidiaries located in Mainland China are subject to enterprise income tax ("EIT") at the statutory tax rate of 33% (comprising an enterprise income tax rate of 30% and a local income tax rate of 3%) in 2007, and 25% in 2008 and 2009 and thereafter under the then effective and current PRC income tax laws.

Pursuant to the then effective PRC income tax laws and regulations, foreign invested enterprises that were engaged in manufacturing activities with an operation period of over 10 years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In accordance with the approval from the relevant tax authority, the Group's PRC subsidiaries including Huizhou NVC, Chongqing NVC, Jiangshan Phoebus, Zhangpu Phoebus and Shanghai Arcata enjoyed the above tax holiday during the Relevant Periods. Meanwhile, Chongqing NVC, a subsidiary located in the west of China, was recognised as a western development enterprise and enjoyed a lower tax rate of 15% in 2009 and 2010 according to the approval issued by the local tax authority in 2009. Sunny, another PRC subsidiary, was recognised as a high-tech enterprise by the PRC tax authority in 2008 with an effective period of three years from year 2008 to year 2010 and was entitled to a 15% enterprise income tax rate for the year ended 31 December 2008 and the year ended 31 December 2009.

A summary of the applicable tax rates for the Group's PRC subsidiaries are set out below:

	Year ended 31 December		
	2007	2008	2009
Huizhou NVC	EIT exemption	12.5%	12.5%
Chongqing NVC	EIT exemption	EIT exemption	7.5%
Zhejiang NVC	33%	25%	25%
Jiangshan Phoebus	N/A	EIT exemption	12.5%
Zhangpu Phoebus	N/A	EIT exemption	12.5%
Sunny	N/A	15%	15%
Shanghai Arcata	N/A	N/A	EIT exemption

The reconciliation between the Group's income tax expense and the product of accounting profit multiplied by the Group's applicable statutory tax rates is as follows:

2007

	Mainland China	Others	Total
	US$'000	US$'000	US$'000
Accounting profit before income tax	15,162	(2,340)	12,822
At the statutory income tax rate (Mainland China: 33%)	5,003	(21)	4,982
Tax exemption	(5,138)	—	(5,138)
Expenses not deductible for tax	74	—	74
Tax losses not recognised	7	21	28
Tax credit at the Group's effective rate	(54)	—	(54)

2008

	Mainland China	Others	Total
	US$'000	US$'000	US$'000
Accounting profit before income tax	40,044	(19,873)	20,171
At the statutory income tax rate (Mainland China: 25%)	10,011	(99)	9,912
Lower tax rates enacted by local authority	(506)		(506)
Tax exemption	(7,879)	—	(7,879)
Expenses not deductible for tax	733	—	733
Income not subject to tax	(265)	—	(265)
Tax losses not recognised	9	99	108
Tax charge at the Group's effective rate	2,103	—	2,103

2009

	Mainland China	Others	Total
	US$'000	US$'000	US$'000
Accounting profit before income tax	44,537	(24,427)	20,110
At the statutory income tax rate (Mainland China: 25%)	11,134	(377)	10,757
Lower tax rates enacted by local authority	(5,552)	—	(5,552)
Tax exemption	(2,195)	—	(2,195)
Expenses not deductible for tax	1,978	—	1,978
Tax losses not recognised	55	377	432
Tax charge at the Group's effective rate	5,420	—	5,420

The balance of unused tax losses for which no deferred tax assets were recognised was US$122,000, US$635,000 and US$2,672,000 as at 31 December 2007, 2008 and 2009, respectively.

Deferred tax assets

Movements in deferred tax assets are as follows:

	Fair value adjustments arising from business combinations	Government grants	Depreciation	Inventory and doubtful debt provision	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2007		—	—	—	—	—
Deferred tax credited to the income statement during the year	—	—	—	34	20	54
At 31 December 2007 and 1 January 2008	—	—	—	34	20	54
From a business combination (note 6.1)	—	—	—	17	—	17
Deferred tax credited/(charged) to the income statement during the year	—	208	81	198	(23)	464
Exchange realignment	—	—	1	4	3	8
At 31 December 2008 and 1 January 2009	—	208	82	253	—	543
From a business combination (note 6.3/note 6.5)	641	—	—	—	—	641
Deferred tax credited /(charged) to the income statement during the year	(92)	(21)	55	202	1	145
At 31 December 2009	549	187	137	455	1	1,329

Deferred tax liabilities

Movements in deferred tax liabilities are as follows:

	Fair value adjustments arising from business combinations	Total
	US$'000	US$000
At 1 January 2007	9,514	9,514
Deferred tax credited to the income statement during the year	(47)	(47)
Exchange realignment	664	664
At 31 December 2007 and 1 January 2008	10,131	10,131
From a business combination (note 6.1)	4,500	4,500
Deferred tax credited to the income statement during the year	(87)	(87)
Exchange realignment	686	686
At 31 December 2008 and 1 January 2009	15,230	15,230
From a business combination (note 6.2)	471	471
Deferred tax credited to the income statement during the year	(554)	(554)
Exchange realignment	10	10
At 31 December 2009	15,157	15,157

The PRC New Corporate Income Tax Law, which became effective on 1 January 2008, states that the distribution of dividends by a foreign-invested enterprise established in Mainland China to its foreign investors, from earnings generated in 2008 and thereafter, shall be subject to withholding enterprise income tax at a rate of 10%.

At 31 December 2008 and 31 December 2009, there were no recognised deferred tax liabilities for taxes that would be payable on the undistributed earnings of the Group's subsidiaries established in Mainland China, as the Group has determined that the undistributed profit of its subsidiaries earned in the years ended 31 December 2008 and 2009 will not be distributed in the foreseeable future. The cumulative temporary differences for which deferred tax liabilities have not been recognised amounted to US$33,303,000 and US$66,616,000 as at 31 December 2008 and 31 December 2009, respectively, and the maximum potential cumulative tax impact was US$3,330,000 and US$6,625,000 for the years ended 31 December 2008 and 2009, respectively, should the Group's subsidiaries located in Mainland China distribute all earnings generated after 1 January 2008 to the foreign investors.

11. DIVIDENDS

There was no dividend proposed or declared for the Relevant Periods.

12. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for each of the three years ended 31 December 2007, 2008 and 2009 includes a loss of US$2,240,000, a loss of US$13,641,000 and a loss of US$22,630,000, respectively, which has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE ATTRIBUTABLE TO COMMON EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the number of common shares as at each balance sheet date of the Relevant Periods is different from the number of common shares immediately after the completion of global offering as more fully explained in the Section of Share Capital of the Prospectus.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost:							
At 1 January 2007	10,343	—	1,454	657	434	2,510	15,398
Additions	35	38	1,484	616	136	5,927	8,236
Transfer in/(out)	7,478	—	225	3	—	(7,706)	—
Disposals	—	—	(97)	(58)	(35)	—	(190)
Exchange realignment	1,040	—	170	69	35	101	1,415
At 31 December 2007 and 1 January 2008	18,896	38	3,236	1,287	570	832	24,859
From a business combination (note 6)	11,766	24	13,361	72	339	825	26,387
Additions	855	315	3,924	561	245	1,713	7,613
Transfer in/(out)	2,009	—	672	27	—	(2,708)	—
Disposals	—	—	(235)	(54)	(25)	—	(314)
Exchange realignment	1,278	7	235	89	42	55	1,706
At 31 December 2008 and 1 January 2009	34,804	384	21,193	1,982	1,171	717	60,251
From business combinations (note 6)	16	312	3,773	2,126	76	14	6,317
Transfer in/(out)	344	—	1,094	18	—	(1,456)	—
Additions	33	3,051	6,594	695	404	1,431	12,208
Disposals	(194)	—	(371)	(39)	(165)	(38)	(807)
Exchange realignment	163	2	114	3	1	1	284
At 31 December 2009	35,166	3,749	32,397	4,785	1,487	669	78,253
Accumulated depreciation:							
At 1 January 2007	102	—	76	44	18	—	240
Depreciation charge for the year	319	—	480	191	70	—	1,060
Disposals	—	—	(16)	(29)	(15)	—	(60)
Exchange realignment	21	—	25	10	4	—	60
At 31 December 2007 and 1 January 2008	442	—	565	216	77	—	1,300
Depreciation charge for the year	927	42	1,335	302	131	—	2,737
Disposals	—	—	(51)	(40)	(13)	—	(104)
Exchange realignment	29	—	59	53	19	—	160
At 31 December 2008 and 1 January 2009	1,398	42	1,908	531	214	—	4,093
Depreciation charge for the year	1,486	347	3,397	1,153	267	—	6,650
Disposals	(12)	—	(159)	(20)	(132)	—	(323)
Exchange realignment	5	—	3	1	—	—	9
At 31 December 2009	2,877	389	5,149	1,665	349	—	10,429
Net book value:							
At 31 December 2009	32,289	3,360	27,248	3,120	1,138	669	67,824
At 31 December 2008	33,406	342	19,285	1,451	957	717	56,158
At 31 December 2007	18,454	38	2,671	1,071	493	832	23,559
At 1 January 2007	10,241	—	1,378	613	416	2,510	15,158

Certain of the Group's buildings with aggregate carrying amounts of approximately US$10,692,000, US$18,541,000 and US$10,717,000 as at 31 December 2007, 2008 and 2009, respectively, were pledged to secure general banking facilities granted to the Group (note 27).

15. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Carrying amount at beginning of year	4,828	5,085	9,112
From a business combination (note 6)	—	3,884	—
Addition	—	—	2,747
Recognised during the year	(101)	(212)	(337)
Exchange realignment	358	355	48
Carrying amount at end of year	5,085	9,112	11,570

The balance represented the prepayments for the use rights of several parcels of land leased from the PRC government with lease terms ranging from 43 to 50 years and land use right certificates with expiry dates ranging from year 2049 to year 2060. The lease terms of certain land use rights were longer than the operating periods as approved in the business licences of certain relevant subsidiaries of the Company with expiry dates ranging from year 2026 to year 2054. The Company has the intention to extend the operating periods of the relevant subsidiaries to the expiry dates of related land use right certificates upon expiration of their existing business licences. Therefore, the prepaid land lease payments were amortised over the lease terms as approved in the land use right certificates.

Certain of the Group's land use rights with aggregate carrying amounts of approximately US$1,457,000, US$1,977,000 and US$1,489,000 as at 31 December 2007, 2008 and 2009, respectively, were pledged to secure general banking facilities granted to the Group (note 27).

16. GOODWILL

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Carrying amount at beginning of year	—	—	30,799
From the business combination of the WIL Subgroup (note 6.1)	—	30,799	—
From the business combination of Shanghai Arcata (note 6.2)	—	—	1,074
From the business combination of Chongqing Lianxin (note 6.3)	—	—	1,610
From the business combination of Huizhou Huixin (note 6.4)	—	—	97
From the business combination of Chongqing Tianyi (note 6.5)	—	—	312
Exchange realignment	—	—	4
Carrying amount at end of year	—	30,799	33,896

Goodwill arose on the acquisition of the WIL Subgroup on 29 August 2008, Shanghai Arcata on 20 February 2009, Chongqing Lianxin on 2 January 2009, Huizhou Huixin on 17 June 2009 and Chongqing Tianyi on 20 October 2009.

As at 31 December 2008 and 2009, goodwill was tested for impairment (note 19), and no impairment provision was recorded.

17. INTANGIBLE ASSETS

	Computer software	Customer relationships	Trademarks	Patents	In-process research and development projects	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost:						
At 1 January 2007	383	308	34,577	—	—	35,268
Additions	5	—	—	—	—	5
Exchange realignment	27	21	2,423	—	—	2,471
At 31 December 2007 and 1 January 2008	415	329	37,000	—	—	37,744
From a business combination (note 6.1)	25	5,110	—	2,340	5,797	13,272
Additions	114	—	—	—	611	725
Transfer in/(out)	—	—	—	6,408	(6,408)	—
Exchange realignment	30	22	2,505	(1)	—	2,556
At 31 December 2008 and 1 January 2009	584	5,461	39,505	8,747	—	54,297
From a business combination (note 6.2)	—	—	—	1,770	—	1,770
Additions	107	—	—	816	—	923
Exchange realignment	1	—	37	1	—	39
At 31 December 2009	692	5,461	39,542	11,334	—	57,029
Amortisation:						
At 1 January 2007	18	205	—	—	—	223
Amortisation	60	105	—	—	—	165
Exchange realignment	4	19	—	—	—	23
At 31 December 2007 and 1 January 2008	82	329	—	—	—	411
Amortisation	74	341	—	156	—	571
Exchange realignment	6	22	—	—	—	28
At 31 December 2008 and 1 January 2009	162	692	—	156	—	1,010
Amortisation	81	1,024	—	1,999	—	3,104
Exchange realignment	—	—	—	(1)	—	(1)
At 31 December 2009	243	1,716	—	2,154	—	4,113
Net book value:						
At 31 December 2009	449	3,745	39,542	9,180	—	52,916
At 31 December 2008	422	4,769	39,505	8,591	—	53,287
At 31 December 2007	333	—	37,000	—	—	37,333
At 1 January 2007	365	103	34,577	—	—	35,045

The additions to customer relationships, patents and in-process research and development projects included in intangible assets were mainly acquired through the business combinations with the WIL Subgroup and Shanghai Arcata. The patents were granted for a minimum of ten years by the relevant government agency and the remaining useful lives ranged from five to seven years as were determined by senior management based on their best estimate at the date of acquisition. The useful lives of customer relationships, and in-process research and development projects were estimated to be five years by senior management based on their best knowledge and experience when the businesses were acquired.

The useful lives of trademarks were estimated by senior management to be indefinite as the Group has the option to renew the licences at the end of the approved period at minimal cost. Trademarks were tested for impairment on each balance sheet date during the Relevant Periods (note 19).

18. INVESTMENTS IN SUBSIDIARIES/ASSOCIATES

Group

The Group acquired a 35% equity interest in Leici on 29 April 2007 at a consideration of RMB3,500,000 (equivalent to US$462,000) and acquired a 26% equity interest in Shanghai Arcata on 7 November 2008 at a consideration of RMB2,099,000 (equivalent to US$307,000) in a step acquisition (note 6.2). As stated in note 6.2, the Group acquired control of Shanghai Arcata on 20 February 2009 and consolidated Shanghai Arcata beginning on 21 February 2009. Leici and Shanghai Arcata are both private entities not being listed on any public exchange and are engaged in the manufacture of lighting electronic products. The following table illustrates the summarised financial information of the Group's investments in associates for the Relevant Periods:

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Share of the associates' revenue and profits/(losses)			
Revenue	675	2,099	2,323
Profits/(losses) (note 8.7)	(45)	39	58

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Share of associates' assets and liabilities:			
Current assets	503	2,102	1,546
Non-current assets	119	1,103	214
Current liabilities	(190)	(2,292)	(964)
Non-current liabilities	—	(124)	(256)
Net assets	432	789	540
Goodwill on acquisition of Shanghai Arcata (note 6.2)	—	19	—
Carrying amount of investments in associates	432	808	540

Company

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Unlisted investments, at cost	18,062	90,456	90,456

The principal subsidiaries of the Company include Huizhou NVC, Chongqing NVC, UK NVC and World Through. The Company directly holds 100%, 100% and 80% equity interests in Huizhou NVC, Chongqing NVC and UK NVC, respectively, at each balance sheet date of the Relevant Periods, and holds a 100% equity interest in World Through as at 31 December 2008 and 2009.

19. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE LIVES

Impairment test of goodwill:
Goodwill acquired through the business combination with the WIL Subgroup has been allocated to the following cash-generating units for impairment testing:

Lamp products cash-generating unit in the WIL Subgroup
The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. Management adopted an average growth rate of 14% for the cash flow projection made on 31 December 2009 (31 December 2008: 6%) by reference to past experience and external sources of information. The future cash flow was discounted to its present value using a discount rate of 19.11% as at 31 December 2009 (31 December 2008: 20.2%). The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2008 and 31 December 2009, the value in use of the cash-generating unit exceeded its carrying amount and the goodwill allocated to this cash-generating unit was regarded as not impaired.

Goodwill acquired through the business combination with Shanghai Arcata has been allocated to the following cash-generating unit for impairment testing:

Lighting electronic products cash-generating unit in Shanghai Arcata
The recoverable amount of the cash-generating unit is determined on the basis of value in use that was based on the most recent financial forecasts for the next five years. Management adopted an average growth rate of 18% by reference to past experience and external sources of information. The future cash flow was discounted to its present value using a pre-tax discount rate of 18.63%. The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the lighting industry. As at 31 December 2009, the value in use of the cash-generating unit exceeded its carrying amount and the goodwill allocated to this cash-generating unit was regarded as not impaired.

Goodwill acquired through the business combination with Chongqing Lianxin has been allocated to the following cash-generating unit for goodwill impairment testing:

Spot luminaires cash-generating unit in Chongqing NVC
The recoverable amount of the cash-generating unit is determined on the basis of value in use that was based on the most recent financial forecasts for the next five years (years 2010-2014). Management adopted an average growth rate of 9.5% by reference to past experience and external sources of information. The future cash flow was discounted to its present value using a discount rate of 18.91%. The cash flow beyond the five-year period was extrapolated using a growth of 2%, which is the same as the long-term growth rate of the lighting industry. As at 31 December 2009, the value in use of the cash-generating unit exceeded its carrying amount and the goodwill allocated to this cash-generating unit was regarded as not impaired.

Goodwill acquired through the business combination with Chongqing Tianyi has been allocated to the following cash-generating unit for goodwill impairment testing:

Decorative fluorescent luminaires cash-generating unit in Chongqing NVC
The recoverable amount of the cash-generating unit is determined on the basis of value in use that was based on the most recent financial forecasts for the next five years (years 2010-2014). Management adopted an average growth rate of 11% by reference to past experience and external sources of information. The future cash flow was discounted to its present value using a discount rate of 19.82%. The cash flow beyond the five-year period was extrapolated using a growth of 2%, which is the same as the long-term growth rate of the lighting industry. As at 31 December 2009, the value in use of the cash-generating unit exceeded its carrying amount and the goodwill allocated to this cash-generating unit was regarded as not impaired.

Impairment test of intangible assets with indefinite useful lives
Trademarks with indefinite useful lives have been allocated to the following cash-generating unit for impairment testing:

Lamp and luminaire products cash-generating unit in Huizhou NVC and Chongqing NVC
The recoverable amount of the cash-generating unit is determined on the basis of value in use that was based on the most recent financial forecasts for the next five years. Management adopted average growth rates of 11%, 8% and 18%, respectively, as at 31 December 2007, 2008 and 2009 by reference to past experience and external sources of information. The future cash flow was discounted to its present value using discount rates of 20.4% as at 31 December 2007, 19.64% as at 31 December 2008 and 24.20% as at 31 December 2009. The cash flow beyond the five-year period was extrapolated using a growth rate of 2%, which is the same as the long-term average growth rate of the energy saving lighting industry. As at 31 December 2007, 2008 and 2009, the value in use of the cash-generating units exceeded their carrying amounts and the trademarks allocated to these cash-generating units were regarded as not being impaired.

Key assumptions used in the value in use calculation
The following describes each key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation — Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise perpetual raw material's price movements have been used as an indicator of future price movements. The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for the countries where raw materials are sourced.

Growth rate estimates — Rates are based on published industrial research.

20. INVENTORIES

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Raw materials	5,759	6,981	13,707
Work in progress	2,197	3,031	1,297
Finished goods	13,002	11,715	32,563
Total inventories	20,958	21,727	47,567

The amount of the write-down of inventories recognised as an expense for the year ended 31 December 2009 was US$1,898,000 (2008: reversal of write-down of US$133,000; 2007: write-down of US$281,000) which is recognised in cost of sales. In 2008, a reversal of write-down amounting to US$133,000 arose from the use of slow-moving inventories that has led to the increase in net realisable value of these inventories. The reversal of write-down was recognised as a reduction in the amount of inventories recognised as an expense.

21. TRADE AND OTHER RECEIVABLES

Group

	Notes	31 December		
		2007	2008	2009
		US$'000	US$'000	US$'000
Trade receivables	(a)	13,245	57,412	67,186
Provision		(404)	(945)	(1,858)
		12,841	56,467	65,328
Other receivables	(b)	9,061	23,896	20,859
Provision		(2,307)	(162)	(392)
		6,754	23,734	20,467
		19,595	80,201	85,795

Company

	Notes	31 December		
		2007	2008	2009
		US$'000	US$'000	US$'000
Other receivables	(b)	3,950	21,771	17,495

Notes:

(a) Trade receivables of the Group

Trade receivables of the Group represented proceeds receivable from the sale of goods. The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. For the years ended 31 December 2007 and 2008, credit terms ranging from 30 to 90 days were granted to customers. Since 1 January 2009, the Group has extended credit terms granted to customers ranging from 90 to 120 days. The Group seeks to maintain strict control over its outstanding receivables and has established a credit control management system. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables related to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are free of interest.

Certain of the Group's trade receivables with aggregate carrying amounts of approximately US$1,002,000 and US$293,000 as at 31 December 2008 and 31 December 2009, respectively, were pledged to secure general banking facilities granted to the Group. There was no pledged trade receivable as at 31 December 2007 (note 27).

The carrying amounts of trade receivables approximate to their fair values.

An ageing analysis of the trade receivables of the Group based on the invoice date as at the respective reporting dates, net of provision, is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Within 3 months	11,056	48,632	59,252
4 to 6 months	1,663	6,544	4,407
7 to 12 months	33	1,226	1,073
1 to 2 years	89	44	595
Over 2 years	—	21	1
	12,841	56,467	65,328

Movements in the provision for impairment of trade receivables:

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
At beginning of year	368	404	945
Impairment loss recognised	11	629	995
Utilised	—	(107)	—
Unused balance reversed	—	(15)	(104)
Exchange realignment	25	34	22
At end of year	404	945	1,858

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of US$404,000, US$945,000 and US$1,858,000 as at 31 December 2007, 2008 and 2009, respectively, with a carrying amount before provision of US$404,000, US$945,000 and US$1,858,000 as at 31 December 2007, 2008 and 2009, respectively. The individually impaired trade receivables were related to customers that were in unexpected financial difficulties and it is assessed that such receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

As at the respective reporting dates, an ageing analysis of trade receivables that are not considered to be impaired is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Neither past due nor impaired	10,430	50,798	63,100
Past due but not impaired			
— Less than 2 months past due	2,287	3,932	1,107
— Over 2 months past due	124	1,737	1,121
	12,841	56,467	65,328

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired have good repayment records with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment provision is required in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the trade receivables are amounts due from the following related companies. For the relationship between the following companies and the Company, please refer to note 35(a).

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Chongqing Tianyi	573	1,022	—
Zhejiang Tonking	—	4,357	—
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.	2	68	—
Quzhou Phoebus Lighting Dectron Co., Ltd.	—	1,443	—
Huizhou NVC Lighting Environment Engineering Co., Ltd.	—	—	25
	575	6,890	25

The amounts were interest-free and unsecured with normal credit terms ranging from 60 to 90 days except that a special credit term of around 200 days was granted to Zhejiang Tonking.

(b) Other receivables

Group

Other receivables comprise of the following:

	Notes	31 December 2007	31 December 2008	31 December 2009
		US$'000	US$'000	US$'000
Receivables from third parties	(i)	4,726	13,716	9,777
Receivables from a director	(ii)	—	5,118	4,866
Amounts due from other related parties	(iii)	4,335	5,062	6,216
Provision	(iv)	(2,307)	(162)	(392)
Net balance		6,754	23,734	20,467

Notes:

(i) Out of the balance of receivables from third parties, amounts of US$3,636,000, US$1,663,000 and nil as at 31 December 2007, 2008 and 2009, respectively, represented advances to distributors or suppliers with no fixed repayment terms. The advances carried interest rates ranging from 6.39% to 24%. In addition, a loan acquired upon the acquisition of the WIL Subgroup, amounting to US$384,000 and US$396,000 as at 31 December 2008 and 31 December 2009, respectively, was receivable from Ms. Wei Xiaoxian, an individual independent to the Group. The loan carries interest rate at 25% per annum with maturity on 15 February 2008 and was secured by a building owned by Quzhou Heng Xuan Real Estate Development Co., Ltd..

In addition, loans with an aggregate balance of US$10,431,000 as at 31 December 2008 were acquired upon the acquisition of the WIL Subgroup. These loans were lent to Mr. Jiang Jianming, Mr. Xu Shuisheng and Mr. Qiao Jianping, who are the original minority shareholders of Sunny and independent parties of the Group, by the WIL Subgroup. The loans carried interest at a rate ranging from 5.31% to 7.47% per annum. The maximum amount of principal and interest outstanding in aggregate during the year ended 31 December 2008 and 2009 are of US$10,431,000 and US$10,513,000, respectively. In accordance with the WIL SPA, Mr. Wu Jiannong guarantees the repayment of the above-mentioned loans to World Through plus interest within two weeks after the closing of the Company's acquisition of the WIL Subgroup, failing which, the balance of the cash consideration payable to Signkey shall be decreased by such amount of the loans receivable that remain outstanding on the date of default. The balance of the loans had decreased to US$5,416,000 as at 31 December 2009 due to settlement. At the date of this report, the outstanding balance has been fully settled.

The remaining balance as at 31 December 2009 amounting to US$3,965,000 mainly represented value-added tax refundable from local tax authorities, employee borrowings and sundry receivables, which are unsecured.

(ii) Balance due from a director as at 31 December 2008 represented receivables due from Mr. Wu Jiannong of US$5,118,000, which was acquired upon the acquisition of the WIL Subgroup on 29 August 2008. Pursuant to the WIL SPA, US$5,050,000 out of the above balance shall be settled within two weeks after the closing of the Company's acquisition of the WIL Subgroup, failing which, the amount of the balance of the cash consideration payable to Signkey shall be decreased by such amount that remain outstanding on the date of default.

The balance was subsequently deducted from the outstanding balance of cash consideration payable to Signkey as agreed by the Company and Signkey in February 2010.

The maximum amounts receivable from Mr. Wu Jiannong outstanding during each of the two years ended 31 December 2008 and 2009 are of US$5,118,000 and US$4,866,000, respectively.

(iii) Amounts due from other related parties consist of the following:

	31 December 2007	Maximum amount outstanding during the year 2007	31 December 2008	Maximum amount outstanding during the year 2008	31 December 2009	Maximum amount outstanding during the year 2009
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Chongqing Tianyi	2,380	3,794	1,622	4,287	—	2,265
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.	672	672	1,238	2,953	2,841	2,841
Huizhou Enlin Electronics Co., Ltd.	474	474	1,234	1,234	1,123	1,466
Chongqing Enlin Electronics Co., Ltd.	—	—	—	—	57	63
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.	809	809	667	979	668	668
Shandong NVC Lighting Development Co., Ltd.	—	—	99	99	1,471	1,471
Quzhou Phoebus Lighting Dectron Co., Ltd.	—	—	—	—	56	56
Signkey	—	—	202	202	—	—
	4,335	5,749	5,062	9,754	6,216	8,830

The amount due from Chongqing Tianyi represented the advances to it. Amounts due from Zhongshan Sheng Di Ai Si Lighting Co., Ltd., Huizhou Enlin Electronics Co., Ltd., Chongqing Enlin Electronics Co., Ltd, Huizhou Changjiang Luminaire Manufacturing Co., Ltd. and Shandong NVC Lighting Development Co., Ltd. represented trademark licence fees and distribution commission receivables by the Group. The remaining balance as at 31 December 2008 represented an advance of US$202,000 to Signkey. The balances were unsecured.

(iv) Movements in the provision for impairment of other receivables:

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
At beginning of year	2,253	2,307	162
Impairment loss recognised	54	160	230
Utilised	—	(2,433)	—
Unused balance reversed	—	—	(7)
Exchange realignment	—	128	7
At end of year	2,307	162	392

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of US$2,307,000, US$162,000 and US$392,000 as at 31 December 2007, 2008 and 2009, respectively, with a carrying amount before provision of US$2,307,000, US$162,000 and US$392,000 as at 31 December 2007, 2008 and 2009, respectively. The individually impaired other receivables were related to parties that were in unexpected financial difficulties and it is assessed that such receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

An ageing analysis of other receivables of the Group based on the transaction date as at the end of the respective reporting dates, net of provisions, is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Within 1 year	4,061	20,899	5,624
1 to 2 years	2,693	1,578	13,200
Over 2 years	—	1,257	1,643
	6,754	23,734	20,467

As at the respective reporting dates, an ageing analysis of other receivables that are not considered to be impaired is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Neither past due nor impaired	6,754	7,733	9,789
Past due but not impaired			
— Over 2 months past due	—	16,001	10,678
	6,754	23,734	20,467

Other receivables that were neither past due nor impaired relate to a number of debtors for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of debtors that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment provision is required in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

There were generally no fixed terms for other receivables except for those that were defined by contracts which are mentioned elsewhere in the Financial Information.

There is generally no interest charged on other receivables, except for those that were defined by contracts which are mentioned elsewhere in the Financial Information. The interest income arising from loans and receivables amounted to US$318,000, US$380,000 and US$150,000 for the years ended 31 December 2007, 2008 and 2009, respectively (note 8.4).

The carrying amounts of other receivables approximate to their fair values.

Company

	Notes	31 December		
		2007	2008	2009
		US$'000	US$'000	US$'000
Receivables from a third party	(i)	—	750	—
Amounts due from subsidiaries	(ii)	3,950	21,021	17,495
Net balance		3,950	21,771	17,495

Notes:

(i) The balance represented other receivables due from Max Rich as at 31 December 2008. The amount was unsecured and interest-free with no fixed terms of repayment.

(ii) Amounts due from subsidiaries consist of the following:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Huizhou NVC	3,500	14,250	3,500
UK NVC	450	450	4,830
Hong Kong TYU	—	321	321
World Through	—	6,000	8,844
	3,950	21,021	17,495

The balance is interest-free, unsecured and with no fixed terms of repayment.

An ageing analysis of other receivables of the Company based on the transaction date as at the respective reporting dates, net of provisions, is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Within 1 year	3,950	17,821	7,224
1 to 2 years	—	3,950	6,321
2 to 3 years	—	—	3,950
	3,950	21,771	17,495

As at the respective reporting dates, the ageing analysis of other receivables that are not considered to be impaired is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Neither past due nor impaired	3,950	21,771	17,495

The carrying amounts of other receivables approximate to their fair values.

22. PREPAYMENTS

Included in the prepayments are amounts due from the following related companies. For the relationships between the following companies and the Company, please refer to note 35(a).

Group

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Chongqing Tianyi	685	1,062	—
Zhongshan Qitian Lighting Co., Ltd.	—	—	38
Chongqing Chidian Technology Co., Ltd.	—	—	737
Huizhou Changjiang Luminaire Manufacturing Co., Ltd	831	92	235
	1,516	1,154	1,010

The balances are interest-free and unsecured.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets represent the Group's short-term investment in a fund which was issued by China Construction Bank and was mainly used to invest in inter-bank bonds and government bonds. The investment carried an initial expected return rate of 2.2%, subject to adjustment based on the floating market interest rate, and matured in seven days.

24. CASH AND SHORT-TERM DEPOSITS

Group

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Cash and bank balances	11,466	20,939	44,034
Time deposits			
Non-pledged time deposits	137	10,146	—
Pledged time deposits	618	317	3,258
	12,221	31,402	47,292
Less:			
Non-pledged time deposits with original maturity of more than three months when acquired	—	(9,000)	—
Pledged time deposits for banking facilities	(618)	(317)	(3,258)
Cash and cash equivalents	11,603	22,085	44,034

Company

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Cash and bank balances	151	1,060	5,578
Time deposits			
Non-pledged time deposits	—	10,000	—
	151	11,060	5,578
Less:			
Non-pledged time deposits with original maturity of more than three months when acquired	—	(9,000)	—
Cash and cash equivalents	151	2,060	5,578

Time deposits were made for varying periods of between seven days and six months depending on the immediate cash requirement of the Group, and earned interest at the respective short-term deposit rates. Pledged deposits were made to banks to secure the issuance of bank acceptance notes. Cash at banks and pledged deposits earn interest at floating rates based on the daily bank deposit rate. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The Group's cash and bank balances denominated in RMB amounted to RMB84,999,000 (equivalent to US$11,636,000), RMB132,701,000 (equivalent to US$19,416,000) and RMB268,467,000 (equivalent to US$39,317,000) as at 31 December 2007, 2008 and 2009, respectively, which are not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The carrying amounts of cash and short-term deposits approximate to their fair values.

25. TRADE AND BILLS PAYABLES

Group

	Notes	31 December		
		2007	2008	2009
		US$'000	US$'000	US$'000
Trade and bills payables to third parties	(a)	20,989	25,753	48,527
Trade payables to an associate	(b)	268	—	—
Trade payables to other related parties	(c)	318	5,606	6,242
		21,575	31,359	54,769

Notes:

(a) Trade and bills payables to third parties are non-interest-bearing and are normally settled on 30-day to 90-day terms. The carrying amounts of trade and bills payables approximate to their fair values.

(b) The balance as at 31 December 2007 represented an amount due to Leici. The balance was unsecured, interest-free with credit terms of 90 days.

(c) The balance due to other related parties includes the following:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Quzhou Aushite Illumination Co., Ltd.	—	2,730	4,287
Zhejiang Tonking	—	2,082	—
Jiangshan World Bright Crystal Co., Ltd.	—	382	329
Huizhou Huichengqu Changxin Hardware Machining Plant	—	293	974
Chongqing Chidian Technology Co., Ltd.	—	22	286
Jiangshan Liming Transportation Co., Ltd.	—	55	—
Quzhou Phoebus Lighting Dectron Co., Ltd.	42	42	48
Huizhou Huanyu Lighting Technology Co., Ltd.	—	—	307
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.	—	—	11
Chongqing Tianyi	276	—	—
	318	5,606	6,242

The balances were unsecured, interest-free with credit terms ranging from 30 days to 90 days.

The Group's bills payables are secured by the pledge of certain of the Group's bank balances (note 24).

An ageing analysis of the trade and bills payables of the Group based on the invoice date as at the end of the respective reporting dates is as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Within 3 months	14,337	28,892	53,383
4 to 6 months	6,384	1,526	902
7 to 12 moths	702	794	120
1 to 2 years	35	45	261
2 to 3 years	117	85	23
Over 3 years	—	17	80
	21,575	31,359	54,769

26. OTHER PAYABLES AND ACCRUALS

Group

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Advances from customers	1,615	1,912	1,519
Accruals	3,821	3,815	6,951
Other payables to third parties	4,928	13,788	18,483
Other payables to related parties	—	32,929	14,911
	10,364	52,444	41,864

Except for those mentioned elsewhere in the Financial Information, other payables are non-interest-bearing and have no fixed terms of repayment. The balances due to related parties include the following:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Signkey	—	32,351	13,136
Jiangshan Youhe	—	567	1,582
Jiangshan Liming Transportation Co., Ltd.	—	11	121
Quzhou Phoebus Lighting Dectron Co., Ltd.	—	—	56
Hangzhou Tongren	—	—	9
Others	—	—	7
	—	32,929	14,911

The amounts due to Signkey by the Group included the following:

— Cash consideration payable to Signkey for the acquisition of the WIL Subgroup of US$26,000,000 and US$13,000,000 as at 31 December 2008 and 31 December 2009, respectively. The balance was interest-free and unsecured, and shall be settled within one year. In February 2010, the balance due from Mr. Wu Jiannong of US$4,866,000 as at 31 December 2009 was deducted from the Company's outstanding balance of cash consideration payable to Signkey (note 21(b)(ii)).

— Undistributed dividends payable to Signkey of RMB43,408,000 (equivalent to US$6,351,000) as at 31 December 2008, which were declared before the WIL Subgroup was acquired by the Company. The balance was interest-free and unsecured. In 2009, the balance was settled.

— A loan borrowed from Signkey of US$136,000 as at 31 December 2009, which is unsecured, interest-free and with no fixed repayment terms.

Company

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Signkey	—	26,000	13,000
Accruals	—	—	2,370
Other payables to a third party	42	—	140
Other payables to subsidiaries	476	860	1,080
	518	26,860	16,590

The amount due to Signkey by the Company mainly included cash consideration payable to Signkey for the acquisition of World Through.

Other payables of the Group and the Company are non-interest-bearing and have no fixed terms of repayment, except for those mentioned elsewhere in the Financial Information.

27. INTEREST-BEARING LOANS

	31 December								
	2007			2008			2009		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current									
Bank loans — unsecured			—	6.57 -7.47	2009	3,072			—
Bank loans — secured	6.48	2008	4,111	6.57 - 7.47	2009	5,045	4.37 - 4.78	2009 - 2010	6,093
			4,111			8,117			6,093
Non-current									
Loans from local government of Jiangshan city — unsecured			—	18	2011	293	18	2011	293

Current portion

Certain of the Group's bank loans are secured by:

a) certain of the Group's buildings with aggregate carrying amounts of approximately US$10,692,000, US$18,541,000, US$10,717,000 as at 31 December 2007, 2008 and 2009, respectively;

b) certain of the Group's land use rights with aggregate carrying amounts of approximately US$1,457,000, US$1,977,000 and US$1,489,000 as at 31 December 2007, 2008 and 2009, respectively;

c) certain of the Group's trade receivables with aggregate carrying amounts of approximately US$1,002,000 and US$293,000 as at 31 December 2008 and 2009, respectively.

Jiangshan He Jia Shan Cement Co., Ltd., an independent party, had provided a financial guarantee for the Group's bank loans with an aggregate balance of US$2,926,000 as at 31 December 2008. There was no such guarantee as at 31 December 2009.

Non-current portion

The balance represented a long-term unsecured loan amounting to RMB2 million (equivalent to US$293,000) borrowed from the local government of Jiangshan City of Zhejiang Province. The loan carries a fixed interest of RMB360,000 (equivalent to US$52,000) per annum with maturity on 31 December 2011.

The loan balances of US$4,111,000, US$8,117,000 and US$6,093,000 as at 31 December 2007, 2008 and 2009, respectively, were repayable within one year. In addition, a loan of US$293,000 was repayable more than two but not exceeding five years as at 31 December 2008, and was repayable more than one but not exceeding two years as at 31 December 2009.

28. GOVERNMENT GRANTS

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
At beginning of year	—	—	1,611
Received during the year	—	2,061	7,569
Released to the income statement	—	(452)	(501)
Exchange realignment		2	1
At end of year	—	1,611	8,680
Current	—	224	—
Non-current	—	1,387	8,680
	—	1,611	8,680

Various government subsidies have been granted to the Group's PRC subsidiaries by the local government as an incentive for export sales, technology research and development, recruitment of local workers, as well as financial support to the Group's PRC subsidiaries for the expansion of production capacity of energy saving lamps and compensation for plant relocation.

Included in the total balance is a non-current portion of US$1,617,000 (2008: US$1,387,000) representing a government grant received for financing the setting up of a production line of T5 energy saving lamp tubes. The amount is released to the income statement over the estimated useful life of 10 years of the associated production line. In addition, a non-current portion of US$7,063,000 (2008: nil) represented the government grant received as compensation for the relocation of the Group's production facilities in Sunny, Jiangshan Pheobus and Zhejiang NVC. The amount will be released to the income statement to match the plant relocation costs when incurred.

There are no unfilled conditions or contingencies attached to these grants.

29. DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company

	Notes	31 December 2007	2008	2009
		US$'000	US$'000	US$'000
Embedded derivatives of convertible redeemable preference shares	(a)	—	13,528	—
The Warrant issued to SAIF	(b)	570	—	—
		570	13,528	—

(a) The balance represented the fair value of embedded derivatives of the Series A-1/Series B preference shares, which was determined by LCH as at 31 December 2007 and Sallmanns as at 31 December 2008 and 2009. At 31 December 2009, the balance was nil as the Series A-1/Series B preference shares were reclassified as equity instead of derivatives as at 31 December 2009. For further details, please refer to note 8.6 and note 30.

The change in fair value between the reporting balance sheet dates gave rise to a loss of US$13,528,000 and US$18,277,000 for the year ended 31 December 2008 and the year ended 31 December 2009, respectively (note 8.6). The change in fair value for the year ended 31 December 2007 was nil.

(b) Amount represented the fair value of the Warrant issued to SAIF on 14 August 2006.

SAIF exercised the Warrant on 1 September 2008 and subscribed for 97,125 Series A-2 preference shares with a par value of US$0.0001 each at the consideration of US$5,000,000 in aggregate. The exercise in full of the Warrant has, under the then capital structure of the Company, resulted in the issue of the Series A-2 preference shares with an aggregate par value of US$9.7 and share premium of US$6,988,000. For the terms of the Series A-2 preference shares, please refer to note 30.

30. CONVERTIBLE REDEEMABLE PREFERENCE SHARES

On 1 August 2006, the Company entered into a share purchase and share subscription agreement with the then existing shareholders, Mr. Wu Changjiang, the founder and chairman of the Company, Mr. Xia Lei, a director of the Company, SAIF, and SAIF Venture Capital Investment Growth Fund, a Sino-foreign cooperative joint venture existing under the laws of the PRC, pursuant to which, the Company issued to SAIF and SAIF Venture Capital Investment Growth Fund 505,051 and 50,505 Series A-1 preference shares of a par value of US$0.0001 each, respectively, at a per share purchase price of US$39.60 (the "Series A-1 Original Issue Price") for an aggregate consideration of US$22,000,000.

On the same day, the Company issued the Warrant (note 8.6 and 29) to SAIF to entitle SAIF to purchase from the Company at any time or from time to time after 1 August 2006, and before the earlier of (i) the fifth anniversary of the issue date and (ii) the date of closing of the Company's qualified IPO (the "Qualified IPO"*) (as defined below) defined in the Company's Memorandum and Articles of Association ("M&AA"), up to 97,125 Series A-2 preference shares of a par value US$0.0001 each of the Company at an aggregate purchase price of US$5,000,000, subject to adjustment. The per share purchase price for the Series A-2 preference shares is US$51.48, subject to adjustment.

On 25 October 2007, SAIF Venture Capital Investment Growth Fund transferred 50,505 Series A-1 preference shares to SAIF.

On 27 August 2008, pursuant to a share purchase and share subscription agreement (the "Series B SPA") entered into by the then common shareholders, the Company, Mr. Wu Changjiang, Huizhou NVC, Chongqing NVC, GS Direct L.L.C. ("GS") and SAIF on 9 May 2008, the Company issued 208,157 and 28,471 Series B preference shares with a par value of US$0.0001 each to GS and SAIF, respectively, at a per share purchase price of approximately US$175.62 (the "Series B Original Issue Price") for a consideration of US$36,555,556 and US$5,000,000, respectively.

As mentioned in note 29 above, SAIF exercised the Warrant on 1 September 2008 and subscribed for 97,125 Series A-2 preference shares of the Company at the issue price of approximately US$51.48 per share with an aggregate price of US$5,000,000.

* A Qualified IPO means a firm-commitment underwritten public offering by the Company of its common shares in the United States, Hong Kong or any other jurisdiction, and a listing of the common shares on the New York Stock Exchange or the NASDAQ Global Market in the United States, the Main Board of The Stock Exchange of Hong Kong Limited in Hong Kong or any internationally recognised stock exchange in any other jurisdiction reasonably acceptable to the holders of a majority of the then outstanding Series A and Series B preference shares of the Company, provided that the market capitalisation of the Company immediately following the Qualified IPO shall not be less than US$720 million (the "Qualified IPO Value"), the gross proceeds receivable by the Company from the Qualified IPO shall not be less than US$120 million (to the extent required by the market conditions at the time of the Qualified IPO, in the reasonable judgement of the managing underwriter or underwriters for the Qualified IPO, the Qualified IPO Value may be reduced by up to 10% from the amount of US$720 million).

Without any action being required by the holders of such shares, each Series A-1 preference share shall automatically be converted, without the payment of any additional consideration, into one common share upon the earliest of (i) the closing of the Group's

Qualified IPO, (ii) the vote on written consent of holders of more than two-thirds of the then outstanding Series A/Series B preference shares, or (iii) the occurrence of the transfer of the Series A/Series B preference shares to the Group's competitors.

The major terms of the preference shares, including Series A-1 preference shares, Series A-2 preference shares (collectively referred to as the "Series A preference shares") and Series B preference shares that are set out in the Company's M&AA were as follows:

(a) Redemption

Pursuant to the then effective M&AA, the Series A-1 preference shares are redeemable at the option of the holders starting from 1 August 2011 if the Company does not complete a Qualified IPO by then. The original redemption price is 150% of the Series A-1 Original Issue Price.

Pursuant to the Second Amended and Restated Memorandum and Articles of Association (the "Second Amended and Restated M&AA") approved by the board of directors of the Company on 6 May 2008, the redemption price was modified to be equal to 100% of the Series A-1 Original Issue Price, plus an amount that will yield, in respect of the period from 1 August 2006 to and including the date of completion of such redemption and taking into account any dividends and other payments received by the holders thereof in respect of such Series A-1 preference shares, an annual compounded rate of return of 10% to such holders on its investment in such Series A-1 preference shares.

The redemption price of the Series B preference shares shall be equal to 100% of the Series B Original Issue Price, plus an amount that will yield, in respect of the period from the date of the closing of the respective holder's purchase of the relevant Series B preference shares to and including the date of completion of such redemption and taking into account any dividends and other cash payments received by the holder thereof in respect of such Series B preference shares, an annual compounded rate of return of 10% to such holder on its investment in such Series B preference shares.

Pursuant to the Waiver Letter entered into by the Company, SAIF and GS on 31 December 2009 (note 8.6), SAIF and GS agreed to waive its respective right to receive the portion of the redemption price in excess of 100% of the Series A-1/Series B Original Issue Price. Accordingly, the redemption price of Series A/Series B preference shares was further modified (the "Second Modification").

Beginning on 1 August 2011 (the "Series A Redemption Trigger Date"), if (i) any Series A-1 preference shares remain outstanding on the Series A Redemption Trigger Date, and (ii) the Company has failed to complete a Qualified IPO by the Series A Redemption Trigger Date, such holders may, at any time on or after the Series A Redemption Trigger Date, require that the Company redeem all of the then outstanding Series A-1 preference shares each of such holders then holds.

If either (i) the holders of the Series A-1 preference shares shall have exercised their redemption right pursuant to the above clause or (ii) by 1 August 2011, the Company shall not have completed a Qualified IPO, then holders of the Series B preference shares can redeem all of the then outstanding Series B preference shares.

The Series A-2 preference shares are not redeemable.

(b) Conversion

The Series A/Series B preference shares are convertible at the option of the holders into common shares. The number of common shares to which a holder shall be entitled upon conversion of any Series A-1/Series B preference share shall be the quotient of the Series A/Series B Original Issue Price divided by the then effective Series A-1/Series A-2/Series B conversion price, which shall initially be US$39.6/US$51.48/US$175.62 resulting in an initial conversion ratio for Series A-1/Series A-2/Series B preference shares of 1:1, subject to adjustment.

Pursuant to the Second Modification, SAIF and GS agreed to waive its respective entitlement to adjustment with respect to the Series A/Series B applicable conversion price.

(c) Dividends

According to the then effective M&AA, the Series A preference shares carried cumulative dividends at the rate of 8% of their original issue price (as adjusted for any share splits, share dividends, combinations, recapitalisation or similar transactions) per annum, provided that such dividends shall be payable only when, as, and if declared by the board of directors.

Pursuant to the Second Amended and Restated M&AA, each holder of the Series A/Series B preference shares shall be entitled to any dividends paid by the Company pro rata (on an as-converted basis) with the common shares and Series A/Series B preference shares. All accrued dividends for any such holder accumulated but undistributed as at 9 May 2008, if any, shall be cancelled.

According to the Amended and Restated Shareholders Agreement entered into on 9 May 2008 by the Company, Mr. Wu Changjiang, GS, SAIF and all of the then common shareholders, the Company shall not declare or pay any dividend prior to the closing of a Qualified IPO.

(d) Voting rights

Each holder of any Series A/Series B preference shares shall be entitled to the number of votes equal to that number of common shares into which such Series A/Series B preference shares could then be converted, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of common shares.

For so long as any Series A/Series B preference share remains outstanding, the Company and any other of its subsidiaries shall not take any of certain actions without the prior approval in a resolution adopted by the affirmative vote of holders of more than 67% in voting power of the Series A/Series B preference shares then issued and outstanding.

(e) Liquidation

According to the Second Amended and Restated M&AA, upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any junior shares, each holder of the Series A/Series B preference shares shall be entitled to receive an amount equal to 100% of the original issue price of the Series A/ Series B preference shares, plus an amount that will yield, in respect of the period from the date of the closing of such holder's purchase of the relevant Series A/Series B preference shares to and including the date of completion of such distribution or payment, an annual compound rate of return of 10% plus all dividends declared and unpaid.

After distribution or payment in full of the amount distributable or payable above, the remaining assets of the Company available for distribution to members shall be distributed ratably among shareholders of the outstanding common shares and the holders of preference shares.

The conversion features embedded in the Series A-1/Series B preference shares were accounted for as liabilities at fair value which was determined to be nil, US$13,528,000 as at 31 December 2007 and 2008, respectively. On 31 December 2009, the conversion features were accounted for as equity at the fair value of US$47,493,000 as at that date, since the modification arising from the Waiver Letter was considered as significant, leading to an extinguishment of the original liability components of the Series A-1/Series B preference shares and the recognition of new equity components. The fair value as at 31 December 2007 was determined by LCH, while the fair values as at 31 December 2008 and 31 December 2009 were determined by Sallmanns.

The host instruments of the Series A-1/Series B preference shares are accounted for as liabilities on the amortised cost basis using the "effective interest rate" method. The effective interest rate to amortise the liability components was 11.7%, 11.7%, 13.4% and 13.4% for the Series A-1 preference shares for the year ended 31 December 2007, the period from 1 January 2008 to 6 May 2008, the period from 7 May 2008 to 31 December 2008, and for the year ended 31 December 2009, respectively, and was 10.13% for the Series B preference shares for the years ended 31 December 2008 and 2009.

The Series A-2 preference shares were accounted for as equity.

The movements in the carrying amount of the host instrument in the Series A-1 preference shares and Series B preference shares are as follows:

	Series A-1 preference shares	Series B preference shares	Total
	US$'000	US$'000	US$'000
Liability component at 1 January 2007	20,208	—	20,208
Interest expense accrued	2,364	—	2,364
Liability component at 31 December 2007 and 1 January 2008	22,572	—	22,572
Liability component at issue date	—	41,407	41,407
Interest expense accrued	2,977	1,398	4,375
Liability component at 31 December 2008 and 1 January 2009	25,549	42,805	68,354
Interest expense accrued	3,427	4,336	7,763
Liability component at 31 December 2009 under terms before the Second Modification	28,976	47,141	76,117
Derecognition of liability component arising from the modification of terms of preference shares	(28,976)	(47,141)	(76,117)
Recognition of liability component under modified terms of preference shares	20,053	37,879	57,932
Liability component at 31 December 2009	20,053	37,879	57,932

31. SHARE CAPITAL

	31 December 2007	2008	2009
	US$	US$	US$
Authorised:			
3,000,000 common shares of US$0.0001 each	300.00	300.00	300.00
2,000,000 preference shares of US$0.0001 each	200.00	200.00	200.00
	500.00	500.00	500.00
Common shares issued and fully paid:			
Number of shares	1,000,000	1,326,930	1,326,930
Aggregate par value of common shares with US$0.0001 each	100.00	132.69	132.69

As at each balance sheet date of the Relevant Periods, the Company is authorised to issue up to a maximum of 5,000,000 shares which shall be divided into two classes of shares as follows: (a) 3,000,000 common shares with a par value of US$0.0001 each, and (b) 2,000,000 preference shares with a par value of US$0.0001 each, 555,556 of which are designated as Series A-1 preference shares, 97,125 of which are designated as Series A-2 preference shares and 236,628 of which are designated as Series B preference shares, and the remaining preference shares shall remain undesignated.

As at 31 December 2007, 555,556 Series A-1 preference shares were in issue, and as at 31 December 2008 and 2009, 555,556 Series A-1 preference shares, 97,125 Series A-2 preference shares and 236,628 Series B preference shares were in issue. Please refer to note 30 for details of the Series A/Series B preference shares in issue.

As at 31 December 2009, the Company's equity structure based on its common shares is as follows:

Shareholders	Number of shares	Par value per share	Total par value	Share of equity interest
		US$	US$	%
NVC Inc.	650,000	0.0001	65.00	49.0
Signkey	326,930	0.0001	32.69	24.6
SCGC Capital Holding Co., Ltd. ("SCGC")	11,993	0.0001	1.20	0.9
Able Dynamic Limited ("Able")	6,458	0.0001	0.64	0.5
PreIPO Capital Partners Limited ("PreIPO")	100,000	0.0001	10.00	7.5
NVC One Limited	57,183	0.0001	5.72	4.3
NVC Two Limited	57,183	0.0001	5.72	4.3
NVC Three Limited	57,183	0.0001	5.72	4.3
Park View Investments	10,000	0.0001	1.00	0.8
Grandsun International Investment Limited ("Grandsun")	50,000	0.0001	5.00	3.8
Total	1,326,930		132.69	100

The above equity structure was arrived at after a series of shares transfers through years 2006 to 2009 which are detailed below:

As at 2 March 2006, the Company is authorised to issue a maximum of 50,000 common shares with a par value of US$0.01. Pursuant to the approval by the then sole director Mr. Wu Changjiang, the Company issued one common share with a par value of US$0.01 to Ms. Tang Wai Fong, an independent Hong Kong resident who was designated by Mr. Wu Changjiang to hold the common shares of the Company on his behalf. Since Mr. Wu Changjiang is a PRC citizen and is regarded as a domestic resident who is required to make a foreign exchange filing with Guangdong Provincial Branch of the State Administration of Foreign Exchange ("SAFE") pursuant to the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Fund Raising and Roundtrip Investment Through Offshore Special Purpose Vehicles promulgated by the State Administration of Foreign Exchange of the PRC in connection with his acquisition of common shares of the Company, Mr. Wu Changjiang designated Ms. Tang Wai Fong to hold the common shares on his behalf temporarily. The afore-mentioned foreign exchange filing with SAFE was completed. The acquisition by Mr. Wu Changjiang of the common shares of the Company is legal and valid under the PRC laws.

On 27 June 2006, 9,999 new common shares were allotted at par of US$0.01 for US$99.99. Among the 9,999 new common shares, 6,999 common shares were allotted to Ms. Tang Wai Fong, and 3,000 common shares were allotted to Front Venture, a company incorporated under the law of the BVI, at a consideration of US$1,000,000. Pursuant to a resolution adopted by Mr. Wu Changjiang on 28 June 2006, Front Venture transferred 1,000 common shares to Kingview, a company incorporated and existing under the laws of the BVI.

On 1 August 2006, each issued and un-issued share of a par value of US$0.01 each was sub-divided into 100 common shares of a par value of US$0.0001 each.

Upon completion of the sub-division, the Company's authorised shares increased to 5,000,000 shares and were reclassified and re-designated into 3,000,000 common shares of a par value of US$0.0001 each and 2,000,000 preference shares of a par value of US$0.0001 each, of which 555,556 shares were designated as Series A-1 preference shares and 97,125 shares were designated as Series A-2 preference shares. The remaining preference shares have not been designated. The existing issued shares immediately before the sub-division were classified as common shares.

On 14 August 2006, Ms. Tang Wai Fong entered into a share transfer agreement with SAIF and Grandsun, an international business company organised and existing under the laws of the BVI, respectively, and transferred 650,000 common shares of the Company to SAIF and 50,000 common shares of the Company to Grandsun.

On 29 April 2008, SAIF transferred the 650,000 common shares of the Company to NVC Inc., a company incorporated in the BVI on 22 September 2006 and a company wholly owned by Mr. Wu Changjiang. According to the Series B SPA, dated 9 May 2008, Mr. Wu Changjiang has been at all times since 1 August 2006 and remains the sole beneficial owner, and NVC Inc. is the sole legal owner, of the 650,000 common shares.

On 27 August 2008, 326,930 common shares were issued to Signkey as part of the consideration for the acquisition of the WIL Subgroup (note 6.1).

On 2 January 2008, Front Venture transferred 6,458 common shares to Able, a limited liability company incorporated in the BVI and 11,993 common shares to SCGC, a limited liability company incorporated in the BVI.

On 1 October 2009, Front Venture transferred 10,000 common shares to Parkview Investments. On 3 November 2009, Front Venture transferred 57,183 common shares to NVC One Limited, 57,183 common shares to NVC Two Limited and 57,183 common shares to NVC Three Limited, respectively. Parkview Investments is a company incorporated in the BVI on 22 February 2007. NVC One Limited, NVC Two Limited and NVC Three Limited are companies incorporated in the BVI on 29 October 2009.

On 23 December 2009, Kingview transferred 100,000 common shares to PreIPO Capital Partners Limited, a company incorporated in the BVI on 20 April 2006 and owned by Able.

32. RESERVES

Group

The movements in the reserves of the Group and the Company are set out in the consolidated statements of changes in equity.

(a) Share premium

Share premium represents the excess of capital contribution received over the nominal amount of share capital, less share issue costs.

Included in the balance is the excess of the fair value of the common shares issued to Signkey over their aggregate par value. During the year ended 31 December 2008, the Group issued 326,930 common shares with a par value of US$0.0001 each to Signkey as consideration for the acquisition of the WIL Subgroup (note 6.1). The share consideration was accounted for at a fair value of US$22,634,000, giving rise to a share premium of US$22,547,000.

(b) Equity component of convertible preference shares

On 1 September 2008, SAIF exercised the Warrant granted by the Group in August 2006 to subscribe for 97,125 Series A-2 preference shares with a par value of US$0.0001 each at a consideration of US$5,000,000 in aggregate. The exercise of the Warrant with a fair value of US$1,988,000 at the exercise date resulted in the recognition of an equity component of convertible preference shares of US$6,988,000. For details of the Warrant and the Series A-2 preference shares, please refer to notes 29 and 30, respectively.

In addition, due to the change in terms of conversion features of Series A-1/Series B preference shares, original liability components of US$47,493,000 were reclassified as equity components as at 31 December 2009 (note 30).

(c) Shareholders' contribution

Shareholders' contribution represents cash contributed by Mr. Wu Changjiang with the cash received from NVC Industrial Co. Ltd., a company controlled by Mr. Wu Changjiang, when NVC Industrial Co. Ltd. was deregistered in 2007.

(d) Statutory reserve

Pursuant to the relevant PRC laws and regulations, each of the wholly-owned foreign enterprises registered in the PRC is required to transfer no less than 10% of its profit after tax, as determined in accordance with general accepted accounting principles in the PRC, to its reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. The fund is restricted as to use.

(e) Employee equity benefit reserve

The employee equity benefit reserve records the value of equity-settled share-based payments provided to the Group's employees, including key management personnel, as part of their remuneration. Please refer to note 33 for further details of the related share option scheme.

(f) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Company

The changes in share premium, equity component of convertible preference shares and employee equity benefit reserve of the Company for the Relevant Periods were the same as those of the Group. The changes in accumulated losses of the Company for the Relevant Periods are set out as follows:

	Accumulated losses
	US$'000
At 1 January 2007	2,216
Loss for the year	2,240
As 31 December 2007 and 1 January 2008	4,456
Loss for the year	13,641
At 31 December 2008 and 1 January 2009	18,097
Loss for the year	22,630
At 31 December 2009	40,727

33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Group's key employees, directors and consultants and strategic suppliers (collectively as the "Participants"). The Scheme became effective on 15 October 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The aggregate number of common shares that may be issued pursuant to the Scheme shall not exceed 192,259 common shares. An option shall not be granted if it would have the effect of causing the total number of common shares subject to options to exceed the total number of common shares reserved for issuance pursuant to the exercise of options. If any common shares subject to issuance by exercising options under the Scheme are not issued or are re-acquired by the Company, for any reasons including, but not limited to, the termination or expiration or cancellation (with the consent of the Participant) of options, such common shares shall again become available for grant under the Scheme.

The extent to which an eligible participant shall be entitled to be granted options pursuant to the Scheme shall be determined at the sole and absolute discretion of the board of directors, provided, however, that the number of common shares issued to or reserved for issuance to any one person shall not exceed 3% of the outstanding shares, i.e. the number of common shares outstanding on a fully-diluted basis including those common shares which are issuable upon the exercise or conversion of outstanding securities of the Company, including the options previously granted under the Scheme and any options granted under other plans. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Terms of options

Subject to any accelerated termination as set forth below, each option shall expire on the date specified by the board of directors, provided that in no event shall the exercise period of an option exceed 10 years from its date of grant. The occurrence of any of the following events will result in the acceleration of the right and obligation to exercise options. If: (a) an optionee dies or becomes disabled while being an employee or director of the Company or an affiliate of the Company, (b) the employment agreement of an optionee being an employee or a director, terminates due to retirement, termination by the Company or voluntary termination by the optionee, or (c) the optionee is a consultant or supplier to the Company or an affiliate of the Company and the consulting agreement or supply agreement of such optionee terminates or is terminated for any reason (each referred to as an "Accelerating Event"). In the case of an Accelerating Event, the executor or administrator of the optionee's estate or the optionee, as the case may be, shall have the right to exercise any options of the optionee to the extent that the options are exercisable at the date of such Accelerating Event within 90 days from the Accelerating Event. Any options held by the optionee which were not exercisable at the date of the Accelerating Event shall immediately terminate on such date.

Vesting conditions and period

Options granted to the Participants pursuant to the Scheme shall vest at the rate of 25% of each such grant for each year measured from the date of grant, subject to proportional vesting on a quarterly basis. Options granted to the directors shall only be fully vested to the extent and at the time at which such condition has been satisfied in full. In the event that any of the Participants is no longer employed by any of the Company or an affiliate of the Company without cause, not including death or disability, any unvested options held by such Participant shall be forfeited.

All options granted to the directors appointed by the holders of the Series A preference shares of the Company shall vest immediately upon the grant of such options and shall vest at an exercise price equal to the per share purchase price of the Series A preference shares.

All options granted to the Chief Executive Officer (the "CEO") of the Company shall vest immediately upon grant of such options, provided that, such options shall be terminated and may not be exercised by the CEO if certain operation performance indicators have not been reached.

Exercise price

The per share purchase price of common shares purchasable under any option shall be equal to the fair market value as determined by the board of directors in accordance with the methods or procedures as listed below on the date of grant of options, provided that such exercise price shall not be less than the per share purchase price of the Series A preference shares.

The fair market value shall be determined by the board of directors in accordance with such methods or procedures as may be established from time to time by the board of directors, except (i) when the common shares are listed on any established stock exchange or a national market system, in that case the fair market value shall be the closing selling price for common shares as quoted on such exchange or system on such date and (ii) when there is no closing selling price for the common shares on the date in question, in that case the fair market value shall be the closing selling price for common shares on the last preceding date on which such quotation exists. Notwithstanding the foregoing sentence, in the event there occurs a third party sale of the common shares of the Company at any time, the price per common share established in such third party sale shall immediately become the fair market value of an common share of the Company for the purposes of the vesting schedule and the terms and conditions of the Scheme and shall supersede and replace the fair market value established as at the end of the prior fiscal year unless and until the board of directors establishes a new fair market value.

During the Relevant Periods, the movements in share options pursuant to the Scheme are as follows:

	Year ended 31 December		
	2007	2008	2009
	Number of share options	Number of share options	Number of share options
At beginning of year	104,868	192,259	192,259
Granted during the year	87,391	—	—
Forfeited during the year	—	—	(375)
At end of year	192,259	192,259	191,884

No share option was exercised and there has been no cancellation or modification to the Scheme during the Relevant Periods.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2009 are as follows:

Number of options	Exercise price per share US$ note (a)	Exercise period note (b)
104,868	39.6	15 October 2006 to 15 October 2016
64,425	51.48	1 January 2008 to 1 January 2018
12,000	96.48	15 January 2008 to 15 January 2018
10,591	96.48	1 March 2008 to 1 March 2018
191,884		

Notes:

(a) The exercise price of share options is subject to adjustment as described in the section "Exercise price" above.

(b) Options shall vest at the rate of 25% of each such grant for each year measured from the date of grant, subject to proportional vesting on a quarterly basis. The exercise period is 10 years, subject to adjustments on the occurrence of any Accelerating Event.

The aggregate fair value of the share options granted is US$2,199,000 and the Group recognised share option expenses of US$320,000, US$148,000 and US$74,000 for the years ended 31 December 2007, 2008 and 2009, respectively (note 8.8/note 9).

The fair values of equity-settled share options at the date of grant were determined by LCH using the BS model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the valuation of share options granted:

For share options granted on 15 October 2006:

Dividends yield (%)	—
Expected volatility (%)	31.17
Risk-free interest rate (%)	4.74
Expected life of options (year)	6.85
Weighted average share price (US$/per share)	39.51

For share options granted on 1 January 2007:

Dividends yield (%)	—
Expected volatility (%)	30.87
Risk-free interest rate (%)	4.70
Expected life of options (year)	6.75 - 7
Weighted average share price (US$)	32.78

For share options granted on 15 January 2007:

Dividends yield (%)	—
Expected volatility (%)	30.71
Risk-free interest rate (%)	4.76
Expected life of options (year)	6.73 - 7
Weighted average share price (US$)	36.97

For share options granted on 1 March 2007:

Dividends yield (%)	—
Expected volatility (%)	30.81
Risk-free interest rate (%)	4.50
Expected life of options (year)	6.67 - 7
Weighted average share price (US$)	32.78

The assumed exercise date was either the day in the middle of the period between the IPO date and the maturity date if the vesting is before IPO, or the day in the middle of the period between the vesting date and the maturity date if the vesting is after the IPO date. The expected life of the options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

There is no cash settlement alternative. The Company has not developed a past practice of cash settlement.

At 31 December 2009, the Company had 191,884 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 191,884 additional common shares of the Company and additional share capital of US$19 and share premium of approximately US$9,649,000 (before issue expenses).

34. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

The Group had the following capital commitments at each balance sheet date of the Relevant Periods:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Contracted, but not provided for:			
Acquisition of 74% equity interest in Shanghai Arcata (note 6.2)	—	2,225	—
Acquisition of operations of Chongqing Lianxin (note 6.3)	—	6,846	—
Acquisition of fixed assets	960	1,537	8,981
	960	10,608	8,981
Authorised, but not contracted for:			
Acquisition of fixed assets	—	—	33,181
Acquisition of land use rights	—	—	489
	—	—	33,670
	960	10,608	42,651

The Company had no capital commitments at each balance sheet date of the Relevant Periods.

(b) Operating lease commitments — as lessee

Future minimum rental payables under non-cancellable operating leases of the Group as at each balance sheet date of the Relevant Periods are as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Within 1 year	261	209	642
After 1 year but not more than 5 years	921	519	1,304
More than 5 years	2,679	104	418
	3,861	832	2,364

(c) Operating lease commitments — as lessor

As lessor, the Group leases certain of its plant and offices under operating lease arrangements with lease terms ranging from two to twenty years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At each balance sheet date of the Relevant Periods, the Group had total future minimum rental receivables under non-cancellable operating leases as follows:

	31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Within 1 year	422	747	381
After 1 year but not more than 5 years	1,289	1,859	798
More than 5 years	—	330	550
	1,711	2,936	1,729

The Company had no operating lease commitments at each balance sheet date of the Relevant Periods.

(d) Contingent liabilities

As at 31 December 2007, 2008 and 2009, the Group had contingent liabilities of nil, US$2,926,000 and nil respectively, which were associated with the financial guarantees provided to Quzhou Aushite Illumination Co., Ltd. and Jiangshan World Bright Crystal Co., Ltd., related companies of the Group, against their bank loans that remained outstanding.

The Company had no contingent liabilities at each balance sheet date during the Relevant Periods.

35. RELATED PARTY TRANSACTION

(a) Major related parties with which the Group had transactions during the Relevant Periods

Associate
Leici

Entities controlled by Mr. Wu Jiannong, a director of the Company
Signkey
Zhejiang Tonking
Jiangshan Youhe
Jiangshan World Bright Crystal Co., Ltd.
Quzhou Aushite Illumination Co., Ltd.
Quzhou Phoebus Lighting Dectron Co., Ltd.
Hangzhou Tongren

An entity jointly controlled by Mr. Wu Jiangnong
Jiangshan Liming Transportation Co., Ltd.

Entities over which a close family member of Mr. Wu Changjiang has significant influence
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.
Huizhou Enlin Electronics Co., Ltd.
Chongqing Enlin Electronics Co., Ltd.
Shandong NVC Lighting Development Co., Ltd.
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.
Huizhou Huichengqu Changxin Hardware Machining Plant
Zhongshan Qitian Lighting Co., Ltd.
Huizhou NVC Lighting Environment Engineering Co., Ltd.
Huizhou Huanyu Lighting Technology Co., Ltd.

An entity owned by a key management personnel of the Group
Chongqing Tianyi

An entity over which the Company indirectly has significant influence through its associate
Chongqing Chidian Technology Co., Ltd.

(b) Significant transactions with related parties

Group

		Year ended 31 December		
		2007	2008	2009
		US$'000	US$'000	US$'000
Transfer of an equity investment to:				
Zhejiang Tonking	(i)	—	2,686	—
Sales of finished goods and other materials to:	(ii)			
Chongqing Tianyi		472	1,056	467
Leici		—	27	—
Zhejiang Tonking		—	277	776
Jiangshan Youhe		—	21	—
Huizhou NVC Lighting Environment Engineering Co., Ltd.		—	—	81
Shandong NVC Lighting Development Co., Ltd.		530	241	13
		1,002	1,622	1,337
Sale of machineries to:				
Jiangshan Youhe	(iii)	—	1,313	305
Purchases of raw materials and finished goods from:	(iv)			
Chongqing Tianyi		3,719	10,559	3,602
Leici		950	—	—
Chongqing Chidian Technology Co., Ltd.		—	—	3,409
Jiangshan World Bright Crystal Co., Ltd.		—	1,014	1,997
Quzhou Aushite Illumination Co., Ltd.		—	1,878	8,030
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.		237	6,808	4,006
Zhongshan Qitian Lighting Co., Ltd.		—	—	2,066
Huizhou Huichengqu Changxin Hardware Machining Plant		600	1,272	2,931
Huizhou Huanyu Lighting Technology Co., Ltd.		—	—	293
Huizhou Enlin Electronics Co., Ltd.		—	—	29
		5,506	21,531	26,363
Purchase of machineries from:	(v)			
Chongqing Tianyi		—	—	1,312
Jiangshan Youhe		—	481	1,298
Hangzhou Tongren		—	—	16
		—	481	2,626
Transportation fee payable to:				
Jiangshan Liming Transportation Co., Ltd.	(vi)	—	210	907
Rental fee income from:	(vii)			
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.		85	1	—
Huizhou Enlin Electronics Co., Ltd.		75	229	260
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.		155	227	141
Chongqing Chidian Technology Co., Ltd.		—	—	21
Quzhou Phoebus Lighting Dectron Co., Ltd.		—	—	56
		315	457	478
Trademark licence fee income from:	(vii)			
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.		605	899	894
Huizhou Enlin Electronics Co., Ltd.		464	704	630
Chongqing Enlin Electronics Co., Ltd.		—	—	205
Huizhou Changjiang Luminaire Manufacturing Co., Ltd.		184	214	73
Shandong NVC Lighting Development Co., Ltd.		—	27	447
		1,253	1,844	2,249
Distribution commissions from:	(vii)			
Zhongshan Sheng Di Ai Si Lighting Co., Ltd.		—	661	1,195
Shandong NVC Lighting Development Co., Ltd.		—	71	1,211
		—	732	2,406
Consultation fee income from:				
Leici	(vii)	—	144	—
Consultation fee expense to:				
Jiangshan Youhe	(vii)	—	—	889
Advances to:				
Chongqing Tianyi	(viii)	—	2,887	—

Other transactions with related parties

As further disclosed in note 34(d) above, the Group provided financial guarantees to its related parties in respect of their bank loans.

As further disclosed in note 6.5, the Group acquired all inventories, machinery and equipment from Chongqing Tianyi, a company with 85% equity interest owned by Mr. Wang Shaoling, a key management personnel of the Group. The consideration of US$2,602,000 was mutually agreed by both parties with reference to the assets' unaudited net book value.

Compensation of key management personnel of the Group

	Year ended 31 December		
	2007	2008	2009
	US$'000	US$'000	US$'000
Short-term employee benefits	431	523	1,359
Equity-settled share option expense	202	97	55
	633	620	1,414

Company

		Year ended 31 December		
		2007	2008	2009
		US$'000	US$'000	US$'000
Advances provided to:	(ix)			
Huizhou NVC		3,500	10,750	—
UK NVC		450	—	4,380
World Through		—	6,000	2,844
Hong Kong TYU		—	321	—
		3,950	17,071	7,224
Expenses paid on behalf of the Company by:	(ix)			
Huizhou NVC		370	301	150
Dividend received from:				
Huizhou NVC		—	6,000	3,500

Terms and conditions of transactions with related parties are as follows:

(i) A disposal group and non-current assets held for sale (note 6.6) were transferred to Zhejiang Tonking at a price agreed by both parties.

(ii) The sales to the related companies were made at prices agreed by both parties.

(iii) The sales of machineries to Jiangshan Youhe were made at prices agreed by both parties.

(iv) The purchases from related companies were made at prices agreed by both parties.

(v) The purchases of machineries were made at prices agreed by both parties.

(vi) The service charges were made at prices agreed by both parties.

(vii) The rental fees, trademark licence fees, distribution commissions and consultation fees were made at prices agreed by both parties.

(viii) The advances to Chongqing Tianyi were interest-free, without fixed repayment terms.

(ix) The cash advances granted to related parties and expenses paid on behalf of the Company by a related party were interest-free, unsecured and had no fixed term of repayment.

In the opinion of the board of directors, the related party transactions were conducted on normal commercial terms and in the ordinary course of the Group's business, which will continue after listing.

For detailed terms regarding the outstanding balances with related parties as at each balance sheet date of the Relevant Periods, please refer to note 21, note 22, note 25 and note 26, respectively.

In the opinion of the board of directors, the balances with related parties will be settled or recovered before listing.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at each balance sheet date of the Relevant Periods are as follows:

Group

Financial assets

	31 December 2007		31 December 2008			31 December 2009	
	Loans and receivables	Total	Loans and receivables	Available-for-sale financial assets	Total	Loans and receivables	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Trade and other receivables	19,595	19,595	80,201	—	80,201	85,795	85,795
Financial assets included in prepayments	2,711	2,711	9,645	—	9,645	6,692	6,692
Cash and short-term deposits	12,221	12,221	31,402	—	31,402	47,292	47,292
Available-for-sale financial assets	—	—	—	4,932	4,932	—	—
Total	34,527	34,527	121,248	4,932	126,180	139,779	139,779

Financial liabilities

	31 December 2007			31 December 2008			31 December 2009	
	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss designated upon initial recognition	Total	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss designated upon initial recognition	Total	Financial liabilities at amortised cost	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Trade and bills payables	21,575	—	21,575	31,359	—	31,359	54,769	54,769
Financial liabilities included in other payables	6,543	—	6,543	48,629	—	48,629	34,913	34,913
Derivative financial instruments	—	570	570	—	13,528	13,528	—	—
Convertible redeemable preference shares	22,572	—	22,572	68,354	—	68,354	57,932	57,932
Interest-bearing loans	4,111	—	4,111	8,410	—	8,410	6,386	6,386
Total	54,801	570	55,371	156,752	13,528	170,280	154,000	154,000

Company

Financial assets

	31 December 2007		31 December 2008		31 December 2009	
	Loans and receivables	Total	Loans and receivables	Total	Loans and receivables	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Other receivables	3,950	3,950	21,771	21,771	17,495	17,495
Financial assets included in prepayments	—	—	—	—	475	475
Cash and short-term deposits	151	151	11,060	11,060	5,578	5,578
Total	4,101	4,101	32,831	32,831	23,548	23,548

Financial liabilities

	31 December 2007			31 December 2008			31 December 2009	
	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss designated upon initial recognition	Total	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss designated upon initial recognition	Total	Financial liabilities at amortised cost	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Financial liabilities included in other payables	518	—	518	26,860	—	26,860	14,220	14,220
Derivative financial instruments	—	570	570	—	13,528	13,528	—	—
Convertible redeemable preference shares	22,572	—	22,572	68,354	—	68,354	57,932	57,932
Total	23,090	570	23,660	95,214	13,528	108,742	72,152	72,152

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise convertible redeemable preference shares, interest-bearing loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, commodity price risk, foreign currency risk and liquidity risk. The directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes.

The Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised below:

(a) Credit risk

The major concentration of credit risk arises from the Group's exposure to a substantial number of trade receivables and other receivables from debtors. The Group has policies in place to ensure that the sales of products are made to customers with an appropriate credit limit, and has strict control over credit limits of other receivables.

Cash and short-term deposits are mainly deposited with registered banks in Mainland China. The Group has policies that limit its credit exposure to any financial institutions. The carrying amounts of trade and other receivables, and cash and short-term deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

In 2008, the Group entered into a number of insurance contracts with China Export & Credit Insurance Corporation whereby 90% of the uncollectible amount derived from the sales during the period from 1 November 2008 to 31 October 2009 would be compensated, provided that the aggregate compensation amount was not greater than RMB40,200,000 (equivalent to US$5,882,000) for domestic sales and US$10 million for overseas sales.

In 2009, the Group entered into a number of insurance contracts with China Export & Credit Insurance Corporation whereby 85% and 90% of the uncollectible amount derived from the domestic sales and overseas sales, respectively, during the period from 1 November 2009 to 31 October 2010 would be compensated, provided that the aggregate compensation amount was not greater than RMB25,200,000 (equivalent to US$3,689,000) for domestic sales and US$10 million for overseas sales.

(b) Commodity price risk

The Group is exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(c) Foreign currency risk

The Group has transactional currency exposure. Such exposure arises from sales by an operating unit in currencies other than the unit's functional currency. The Group's PRC entities also sell their products to overseas customers. Such sales are predominately conducted in US$. As a result, the Group is exposed to movements in the exchange rate between US$ and RMB. The Group does not use foreign currency forward exchange contracts to hedge the currency exposure arising from individual transactions.

The following table demonstrates the sensitivity at each balance sheet date of the Relevant Periods to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to change in the fair value of monetary assets and liabilities) and the Group's equity.

	Year ended 31 December 2007		
	Increase/ (decrease) in foreign currency exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	US$'000	US$'000
If RMB weakens against US$	5%	485	485
If RMB strengthens against US$	(5)%	(485)	(485)

	Year ended 31 December 2008		
	Increase/ (decrease) in foreign currency exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	US$'000	US$'000
If RMB weakens against US$	5%	658	565
If RMB strengthens against US$	(5)%	(658)	(565)

	Year ended 31 December 2009		
	Increase/ (decrease) in foreign currency exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	US$'000	US$'000
If RMB weakens against US$	5%	473	420
If RMB strengthens against US$	(5)%	(473)	(420)

(d) Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of its financial instruments, financial assets and liabilities and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at each balance sheet date of the Relevant Periods, the Group had interest-bearing loans and convertible redeemable preference shares. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group does not have any significant liquidity risk.

The maturity profile of the Group's non-derivative financial liabilities including issued guarantee contracts as at each balance sheet date of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

Group

	31 December 2007		
	Within one year or on demand	Over one year but within five years	Total
	US$'000	US$'000	US$'000
Trade and bills payables	21,575	—	21,575
Financial liabilities included in other payables	6,543	—	6,543
Interest-bearing loans	4,200	—	4,200
Convertible redeemable preference shares	—	33,000	33,000
Total	32,318	33,000	65,318

	31 December 2008		
	Within one year or on demand	Over one year but within five years	Total
	US$'000	US$'000	US$'000
Trade and bills payables	31,359	—	31,359
Financial liabilities included in other payables	48,629	—	48,629
Interest-bearing loans	8,218	449	8,667
Convertible redeemable preference shares	—	90,741	90,741
Guarantees given to banks in connection with facilities granted to related parties*	2,926	—	2,926
Total	91,132	91,190	182,322

* Amounts represented financial guarantees provided to Quzhou Aushite Illumination Co., Ltd. and Jiangshan World Bright Crystal Co., Ltd. For details, please refer to note 34(d) to the Accountants' Report.

	31 December 2009		
	Within one year or on demand	Over one year but within five years	Total
	US$'000	US$'000	US$'000
Trade and bills payables	54,769	—	54,769
Financial liabilities included in other payables	34,913	—	34,913
Interest-bearing loans	6,451	398	6,849
Convertible redeemable preference shares	—	63,556	63,556
Total	96,133	63,954	160,087

Company

	31 December 2007		
	Within one year or on demand	Over one year but within five years	Total
	US$'000	US$'000	US$'000
Financial liabilities included in other payables	518	—	518
Convertible redeemable preference shares	—	33,000	33,000
Total	518	33,000	33,518

	31 December 2008		
	Within one year or on demand	Over one year but within five years	Total
	US$'000	US$'000	US$'000
Financial liabilities included in other payables	26,860	—	26,860
Convertible redeemable preference shares	—	90,741	90,741
Total	26,860	90,741	117,601

	31 December 2009		
	Within one year or on demand	Over one year but within five years	Total
	US$'000	US$'000	US$'000
Financial liabilities included in other payables	14,220	—	14,220
Convertible redeemable preference shares	—	63,556	63,556
Total	14,220	63,556	77,776

(e) Equity price risk

The Group and Company are exposed to equity price risk arising from changes in the Group's own equity price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Group. As at each balance sheet date of the Relevant Periods, the Group is exposed to this risk through the conversion rights attached to the Warrant, Series A-1 and Series B preference shares issued by the Company as disclosed in note 30.

As at 31 December 2007 and 2008, it is estimated that an increase/decrease of 5% in the Group's own equity price (for the conversion features of certain preference shares and the Warrant) with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained earnings) and other components of consolidated equity as follows:

		Year ended 31 December 2007	
		Effect on profit after tax and retained earnings	Effect on other components of equity
		US$'000	US$'000
Change in the relevant equity price risk variable:			
Increase	5%	(95)	—
Decrease	5%	88	—

		Year ended 31 December 2008	
		Effect on profit after tax and retained earnings	Effect on other components of equity
		US$'000	US$'000
Change in the relevant equity price risk variable:			
Increase	5%	(2,129)	—
Decrease	5%	2,579	—

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax, retained earnings and other components of consolidated equity that would arise assuming that the changes in the equity value of the Group as derived from the discounted cash flow method had occurred at 31 December 2007 and 2008 and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at 31 December 2007 and 2008. The key assumptions in the calculation of the equity value of the Group included revenue growth rate, discount rate, gross profit margin, which are assumed to be related to historical records of the Group, the industrial growth rate and general market risk. The analysis was performed on the same basis for the years ended 31 December 2007 and 2008.

As at 31 December 2009, there was no derivative financial instrument.

(f) Fair value

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

— Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

— Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

— Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Assets

Group

	31 December 2008			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Available-for-sale financial assets	—	4,932	—	4,932

There were no financial assets measured at fair value as at 31 December 2007 and 31 December 2009.

The Company had no financial asset measured at fair value at each balance sheet date of the Relevant Periods.

Liabilities

Group and Company

	31 December 2007			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Warrant issued to SAIF	—	—	570	570

	31 December 2008			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Liabilities				
Embedded derivative in convertible redeemable preference shares	—	—	13,528	13,528

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Embedded derivative in convertible redeemable preference shares	—	—	—	—

During the Relevant Periods, there were no significant transfers between instruments in Level 1 and Level 2.

The movements during the Relevant Periods in the balance of liabilities of Level 3 fair value measurements are as follows:

	Year ended 31 December 2007	
	Warrant	Total
	US$'000	US$'000
Liabilities		
As at 1 January 2007	823	823
Change in fair value recognised in profit and loss during the year	(253)	(253)
As at 31 December 2007	570	570
Total gain for the year included in the income statement for assets held at the balance sheet date	253	253

	Year ended 31 December 2008		
	Embedded derivatives in convertible redeemable preference shares	Warrant	Total
	US$'000	US$'000	US$'000
Liabilities			
As at 1 January 2008	—	570	570
Change in fair value recognised in profit and loss during the year	13,528	1,418	14,946
Exercised during the year	—	(1,988)	(1,988)
As at 31 December 2008	13,528	—	13,528
Total loss for the year included in the income statement for assets held at the balance sheet date	13,528	—	13,528

	Year ended 31 December 2009	
	Embedded derivatives in convertible redeemable preference shares	Total
	US$'000	US$'000
Liabilities		
As at 1 January 2009	13,528	13,528
Change in fair value recognised in profit and loss during the year	18,277	18,277
As at 31 December 2009 under terms before the Second Modification	31,805	31,805
Derecognition of embedded derivatives arising from the Second Modification	(31,805)	(31,805)
As at 31 December 2009 under terms after the Second Modification	—	—
Total loss for the year included in the income statement for assets held at the balance sheet date	—	—

As disclosed in note 30, the modified terms of preference shares gave rise to an equity component of US$47,493,000 as at 31 December 2009.

(g) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of derivatives and the Warrant.

i) Embedded derivative of Series A-1 and Series B preference share

The estimate of the fair value of the conversion features embedded in the convertible redeemable preference shares is measured based on the following key assumptions made by the senior management of the Company based on their best estimates.

Year ended 31 December 2007

Expected volatility	33.41%
Option life	2.5 years
Expected dividends	—
Risk-free interest rate	3.06%
Total equity price of the Group	US$66,275,000

Year ended 31 December 2008

Expected volatility	67.53%
Option life	1.5 years
Expected dividends	—
Risk-free interest rate	1.09%
Total equity price of the Group	US$182,413,000

Year ended 31 December 2009

Expected volatility	63.03%
Option life	0.5 years
Expected dividends	—
Risk-free interest rate	1.38%
Total equity price of the Group	US$278,727,000

The fair values of the conversion features were most susceptible to the change of equity price of the Group. For details of the sensitivity test of equity price for the years ended 31 December 2007 and 2008, please refer to note 37 (e). The sensitivity test of equity price as at 31 December 2009 is as follows:

		Year ended 31 December 2009	
		Effect on profit after tax and retained earnings	Effect on other components of equity
		US$'000	US$'000
Change in the relevant equity price risk variable:			
Increase	5%	(3,996)	3,996
Decrease	5%	3,954	(3,954)

ii) Warrant

The estimate of the fair value of the Warrant is measured using a Binomial Option Pricing Model based on the following key assumptions. These assumptions were made by the senior management of the Company based on their best estimates.

	31 December 2007	1 September 2008
Expected volatility	33.41%	30.70%
Option life	2.5 years	1.83 years
Expected dividends	—	—
Risk-free interest rate	3.06%	2.34%
Total equity price of the Group	US$66,275,000	US$166,860,000

The fair value of the Warrant was US$570,000 and US$1,988,000 as at 31 December 2007 and 1 September 2008, respectively, which was most susceptible to the change of equity price. For details of the sensitivity test of equity price for the year ended 31 December 2007, please refer to note 37(e). The sensitivity test of equity price as at 1 September 2008 is as follows:

		Year ended 31 December 2008	
		Effect on profit after tax and retained earnings	Effect on other components of equity
		US$'000	US$'000
Change in the relevant equity price risk variable:			
Increase	5%	(271)	271
Decrease	5%	261	(261)

Where equity price was determined by discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at each balance sheet date of the Relevant Periods. Where other pricing models are used, inputs are based on market related data at each balance sheet date of the Relevant Periods.

38. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to maintain the Group's stability and growth. The Group regularly reviews and manages its capital structure and makes adjustments to it, taking into consideration changes in economic conditions, future capital requirements of the Group, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital using a gearing ratio, which is the net debt divided by the total equity attributable to owners of the Company. Net debt includes interest-bearing loans and convertible redeemable preference shares less cash and short-term deposits. The Group's policy is to maintain a gearing ratio at a reasonable level.

The gearing ratio as at each balance sheet date of the Relevant Periods was as follows:

	2007
	Total
	US$'000
Interest-bearing loans	4,111
Convertible redeemable preference shares	22,572
Total debt	26,683
Less: Cash and short-term deposits	(12,221)
Net debt	14,462
Total equity attributable to owners of the Company	51,018
Gearing ratio	28.3%

	2008
	Total
	US$'000
Interest-bearing loans	8,410
Convertible redeemable preference shares	68,354
Total debt	76,764
Less: Cash and short-term deposits	(31,402)
Net debt	45,362
Total equity attributable to owners of the Company	103,654
Gearing ratio	43.8%

	2009
	Total
	US$'000
Interest-bearing loans	6,386
Convertible redeemable preference shares	57,932
Total debt	64,318
Less: Cash and short-term deposits	(47,292)
Net debt	17,026
Total equity attributable to owners of the Company	164,192
Gearing ratio	10.4%

39. FINANCIAL INFORMATION OF THE WIL SUBGROUP

The information below in respect of the WIL Subgroup is disclosed pursuant to the requirements of the listing rules.

The companies comprising the WIL Subgroup include World Through, Jiangshan Phoebus, Zhangpu Phoebus, Quzhou Guoguang and Sunny. The financial information of the WIL Subgroup (the "WIL Financial Information") for the year ended 31 December 2007 and the period from 1 January 2008 to 29 August 2008 (collectively referred to as the "Pre-acquisition Relevant Periods") has been prepared on a consolidated basis due to the fact that the aforesaid companies are under the common control of Mr. Wu Jiannong. The basis of consolidation is detailed below:

World Through was incorporated in the Territory of the BVI as a limited liability company on 5 August 2005 and its equity interests before 7 February 2008 were originally held by the following founders:

Owners	Number of shares	Par value per share	Total value	Share of equity interests
		US$	US$	%
Mr. Wu Jiannong	42,500	1	42,500	85
Mr. Jiang Jianming	4,000	1	4,000	8
Mr. Xu Shuisheng	1,500	1	1,500	3
Mr. Qiao Jianping	1,500	1	1,500	3
Ms. Shen Menghong	500	1	500	1
Total	50,000	1	50,000	100

On 29 March 2006, the above founders of World Through set up Signkey. On 7 February 2008, these founders transferred their shares in World Through to Signkey.

Immediately before World Through was acquired by the Company on 29 August 2008, World Through directly owned 100% equity interests in Jiangshan Phoebus and Zhangpu Phoebus and indirectly owned 100% equity interests in Sunny and Quzhou Guoguang which were acquired by Jiangshan Phoebus after a series of reorganisation steps (the "Reorganisation") as set out below:

— On 31 July 2008, Jiangshan Phoebus acquired a 51% equity interest in Quzhou Guoguang, including its then 51% equity interest in Sunny from Zhejiang Guoguang Electronics Company Limited ("Zhejiang Guoguang"), an independent party to World Through, at a consideration of RMB50,000,000 (equivalent to US$7,318,000).

— On 18 August 2008, Quzhou Guoguang transferred its 51% equity interest in Sunny to Jiangshan Phoebus at nil consideration.

— Pursuant to an equity transfer agreement entered into on 18 August 2008, Jiangshan Phoebus acquired the remaining 49% equity interest in Sunny from its then minority equity holders, including Mr. Wu Jiannong, Mr. Jiang Jianming, Mr. Qiao Jianping, Mr. Xu Shuisheng and Victory Investment China Group Ltd., an independent party to World Through, who then held 33.91%, 6%, 2%, 2% and 5.09% equity interests in Sunny, respectively, at an aggregate consideration of RMB4,900,000 (equivalent to US$717,000).

— On 20 August 2008, Jiangshan Phoebus acquired the remaining 49% equity interest of Quzhou Guoguang from Mr. Wu Jiannong at a consideration of RMB5,145,000 (equivalent to US$753,000).

The acquisition of Sunny by Jiangshan Phoebus on 31 July 2008 was accounted for as an acquisition of a subsidiary under common control as Sunny and World Through were under the common control of Mr. Wu Jiannong both before and after the acquisition. In accordance with Quzhou Guoguang's Articles of Association agreed by Mr. Wu Jiannong and Zhejiang Guoguang, which held a 49% and 51% equity interest, respectively, in Quzhou Guoguang which held a 51% equity interest in Sunny, Zhejiang Guoguang agreed that the 51% shareholder voting right over Sunny held by Quzhou Guoguang was given to Mr. Wu Jiannong, which entitled Mr. Wu Jiannong to the control rights over Sunny. The acquisition of Quzhou Guoguang by Jiangshan Phoebus on 31 July 2008 was a business combination and the purchase method was applied to account for it.

Given the above facts, the financial information of the WIL Subgroup for the Pre-acquisition Relevant Periods has been prepared in accordance with the principles of merger accounting.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the WIL Subgroup for the Pre-acquisition Relevant Periods include the results and cash flows of all companies then comprising the WIL Subgroup, as if the current structure had been in existence throughout the Pre-acquisition Relevant Periods, or since their respective dates of acquisition, incorporation or establishment, where it is a shorter period. The consolidated balance sheets of the WIL Subgroup as at 31 December 2007 and 29 August 2008 have been prepared to present the state of affairs of the WIL Subgroup as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the controlling parties as at the respective dates. The financial statements of the companies comprising the WIL Subgroup are prepared for the same reporting year as that of the Company, using consistent accounting policies.

The merger method of accounting involves incorporating the financial statement items of the consolidating entities or businesses for the Pre-acquisition Relevant Periods where the common control consolidation occurred as if they had been consolidated from the date when the consolidating entities or businesses first came under the control of the controlling parties.

The net assets of the consolidating entities of businesses are consolidated using their existing book values. No amount is recognised in respect of goodwill or any excess of the acquirer's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of control consolidation.

The consolidated income statements include the results of each of the consolidating entities or businesses from the earliest date presented or since the date when the consolidating entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control consolidation.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the interests of outside shareholders not held by the WIL Subgroup in the results and net assets of the companies now comprising the WIL Subgroup. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

(a) Consolidated income statements

	Notes	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
		US$'000	US$'000
REVENUE	(e)(i)	66,283	46,076
Cost of sales	(e)(ii)	(53,324)	(34,373)
GROSS PROFIT		12,959	11,703
Other income and gains	(e)(ii)	5,362	779
Selling and distribution costs		(741)	(543)
Administrative expenses		(3,636)	(1,963)
Other expenses	(e)(ii)	(291)	(5,861)
Finance income	(e)(ii)	390	534
Finance costs	(e)(ii)	(1,088)	(968)
Share of profits and losses of associates	(e)(ix)	(226)	12
PROFIT BEFORE TAX		12,729	3,693
Income tax charge	(e)(iii)	(1,835)	(1,104)
PROFIT FOR THE YEAR/PERIOD		10,894	2,589
Profit for the year/period attributable to:			
Owners of World Through		9,364	80
Minority interests		1,530	2,509
		10,894	2,589

Consolidated statements of comprehensive income

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
PROFIT FOR THE YEAR/PERIOD	10,894	2,589
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	1,419	1,977
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	12,313	4,566
Total comprehensive income for the year/period attributable to:		
Owners of World Through	10,255	1,216
Minority interests	2,058	3,350
	12,313	4,566

(b) Consolidated balance sheets

	Notes	31 December 2007	29 August 2008
		US$'000	US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	(e)(iv)	18,030	20,407
Prepaid land lease payments	(e)(v)	1,730	1,795
Goodwill	(e)(vi)	310	—
Intangible assets	(e)(vii)	3	429
Investment in a jointly-controlled entity	(e)(viii)	34	—
Investments in associates	(e)(ix)	1,772	—
Deferred tax assets	(e)(iii)	16	17
Long-term deferred expenditures		94	87
Other non-current financial assets	(e)(x)	2,223	—
Total non-current assets		24,212	22,735
CURRENT ASSETS			
Inventories	(e)(xi)	4,714	11,028
Trade and other receivables	(e)(xii)	22,876	34,855
Prepayments		1,216	1,760
Held-for-trading financial assets	(e)(xiii)	4,617	—
Cash and short-term deposits	(e)(xiv)	11,495	5,761
		44,918	53,404
Non-current assets held for sale	(e)(xv)	—	1,486
Assets of a disposal group classified as held for sale	(e)(xv)	—	2,619
Total current assets		44,918	57,509
CURRENT LIABILITIES			
Trade and bills payables	(e)(xvi)	15,130	14,858
Other payables and accruals	(e)(xvii)	12,454	18,957
Interest-bearing loans	(e)(xviii)	15,908	19,899
Income tax payable		1,591	767
Liabilities of a disposal group classified as held for sale	(e)(xv)	—	1,986
Total current liabilities		45,083	56,467
NET CURRENT ASSETS/(LIABILITIES)		(165)	1,042
TOTAL ASSETS LESS CURRENT LIABILITIES		24,047	23,777

	Notes	31 December 2007	29 August 2008
		US$'000	US$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	(e)(iii)	406	394
Interest-bearing loans	(e)(xviii)	274	293
Total non-current liabilities		680	687
Net assets		23,367	23,090
EQUITY			
Equity attributable to owners of World Through			
Issued capital	(e)(xix)	553	553
Shareholders' contribution	(e)(xx)	—	4,953
Other reserve	(e)(xx)	1,773	3,185
Statutory reserve	(e)(xx)	4,739	5,335
Foreign currency translation reserve	(e)(xx)	955	2,091
Retained earnings		7,698	6,760
		15,718	22,877
Minority interests		7,649	213
Total equity		23,367	23,090

(c) Consolidated statements of changes in equity

	Attributable to owners of World Through								
	Issued capital	Shareholders' contribution	Other reserve	Statutory reserve	Foreign currency translation reserve	Retained earnings	Total	Minority interests	Total equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2007	—	—	1,773	2,318	64	5,929	10,084	6,667	16,751
Profit for the year	—	—	—	—	—	9,364	9,364	1,530	10,894
Other comprehensive income:									
Exchange realignment recognised directly in equity	—	—	—	—	891	—	891	528	1,419
Total comprehensive income for the year	—	—	—	—	891	9,364	10,255	2,058	12,313
Other movements:									
Issue of new shares	553	—	—	—	—	—	553	—	553
Transfer to statutory reserve	—	—	—	2,421	—	(2,421)	—	—	—
Dividend declared	—	—	—	—	—	(5,174)	(5,174)	(1,076)	(6,250)
At 31 December 2007	553	—	1,773	4,739	955	7,698	15,718	7,649	23,367
At 1 January 2008	553	—	1,773	4,739	955	7,698	15,718	7,649	23,367
Profit for the period	—	—	—	—	—	80	80	2,509	2,589
Other comprehensive income:									
Exchange realignment recognised directly in equity	—	—	—	—	1,136	—	1,136	841	1,977
Total comprehensive income for the period	—	—	—	—	1,136	80	1,216	3,350	4,566
Other movements:									
Transfer to statutory reserve	—	—	—	596	—	(596)	—	—	—
Dividend declared	—	—	—	—	—	(422)	(422)	(295)	(717)
Contribution from a shareholder	—	4,953	—	—	—	—	4,953	—	4,953
Reorganisation of subsidiaries under common control	—	—	1,412	—	—	—	1,412	(10,491)	(9,079)
At 29 August 2008	553	4,953	3,185	5,335	2,091	6,760	22,877	213	23,090

(d) Consolidated cash flow statements

	Notes	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
		US$'000	US$'000
Operating activities			
Profit before tax		12,729	3,693
Adjustments for:			
Depreciation of property, plant and equipment	(e)(ii)	1,402	1,288
Amortisation of prepaid land lease payments	(e)(ii)	36	26
Amortisation of intangible assets	(e)(ii)	1	1
Amortisation of long-term deferred expenses	(e)(ii)	22	13
(Gain)/Loss on disposal of property, plant and equipment		(25)	5
Fair value (gain)/loss from equity investments, net in listed shares	(e)(ii)	(4,162)	5,345
Finance income	(e)(ii)	(390)	(534)
Finance costs	(e)(ii)	1,088	968
Share of profits and losses of associates	(e)(ix)	226	(12)
Bad debt provision for trade and other receivables	(e)(xii)	6	—
Inventory provision	(e)(ii)	196	80
Government grants	(e)(ii)	(885)	(119)
Loss on disposal of a subsidiary and an associate	(e)(ii)	250	487
Exchange gain, net		(56)	(55)
		10,438	11,186
Increase in trade receivables, other receivables and prepayments		(9,490)	(6,807)
Increase in inventories		(629)	(8,270)
Increase in trade and bills payables, other payables and accruals		6,027	9,291
Income tax paid		(757)	(1,991)
Net cash flows from operating activities		5,589	3,409
Investing activities			
Proceeds from sale of property, plant and equipment		55	9
Proceeds from sale of an associate		266	—
Proceeds from sale of equity investments in listed shares		6,999	3,515
Purchase of property, plant and equipment		(3,141)	(1,124)
Cash paid for equity investments in listed shares		(7,309)	(4,303)
Increase in long-term deferred expense		(96)	—
Purchase of intangible assets		(4)	(22)
Cash consideration arising from the Reorganisation		—	(8,788)
Interest received		390	534
Investment in an associate		(1,843)	—
Net cash flows used in investing activities		(4,683)	(10,179)
Financing activities			
Proceeds from issue of new shares		553	—
Proceeds from new bank borrowings		24,790	17,203
Receipt of government grants	(e)(ii)	885	119
Repayment of bank borrowings		(18,005)	(14,364)
Interest paid	(e)(ii)	(1,088)	(968)
Dividends paid		(527)	(717)
Net cash flows from financing activities		6,608	1,273
Net increase/(decrease) in cash and cash equivalents		7,514	(5,497)
Cash and cash equivalents at beginning of year/period		3,450	11,495
Reclassified to assets of a disposal group classified as held for sale		—	(601)
Effect of foreign exchange rate changes, net		531	364
Cash and cash equivalents at end of year/period	(e)(xiv)	11,495	5,761
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand	(e)(xiv)	10,674	5,761
Non-pledged time deposits with original maturity of less than three months when acquired	(e)(xiv)	821	—
Cash and cash equivalents at end of year/period	(e)(xiv)	11,495	5,761

(e) Notes to the financial information of the WIL Subgroup

(i) Revenue

Revenue represents the net invoice value of goods sold, after allowance for returns and trade discounts.

(ii) Other income and expenses

1) The following items were included in the consolidated income statements:

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Depreciation*	1,402	1,288
Costs of inventories recognised as an expense	38,024	21,646
Inventory provision	196	80
Amortisation of prepaid land lease payments	36	26
Amortisation of intangible assets	1	1
Amortisation of long-term deferred expenses	22	13
Minimum lease payments	49	34
*Included in cost of sales:		
Depreciation	1,254	1,133

2) Other income and gains

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Government grants	885	119
Service income	—	431
Fair value gain, net, from equity investments in listed shares	4,162	—
Others	315	229
	5,362	779

Net fair value gain from equity investments in listed shares represented the net gain arising from the change in market price of the WIL Subgroup's equity investments in listed shares in Mainland China.

3) Other expenses

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Loss on disposal of a subsidiary and an associate	250	487
Fair value loss, net, from equity investments in listed shares	—	5,345
Others	41	29
	291	5,861

Loss on disposal of a subsidiary and an associate during 2007 represented a net loss of US$250,000 arising from the disposal of Jiangshan Sanfeng Gas Co., Ltd and Hangzhou Tianmeng Textile Electronic Technology Co., Ltd., in which the WIL Subgroup held 51% and 33% equity interests, respectively. In August 2008, the WIL Subgroup transferred its equity investment in Jiangshan World Bright Crystal Co., Ltd., an associate, to Signkey, giving rise to a loss of US$487,000 recorded in the period from 1 January 2008 to 29 August 2008.

Net fair value loss from equity investments in listed shares for the period from 1 January 2008 to 29 August 2008 represented the net loss arising from the change in market price of the WIL Subgroup's equity investments in listed shares in Mainland China.

4) Finance income

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Interest income on loans and receivables	350	479
Interest income from bank deposits	40	55
	390	534

5) Finance costs

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Interest expenses on bank loans	938	968
Others	150	—
	1,088	968

6) Employee benefit expenses

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Wages and salaries	7,605	6,706
Social insurance and welfare expenses	2,422	1,842
	10,027	8,548

7) Research and development costs

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Deferred expenditure amortised	—	—
Current year/period expenditure	1,278	232
	1,278	232

(iii) Income tax expense

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Current income tax:		
— Current income tax	1,851	1,115
Deferred income tax:		
— Relating to origination and reversal of temporary difference	(16)	(11)
Income tax reported in the consolidated income statements	1,835	1,104

The WIL Subgroup is subject to enterprise income tax on an individual legal entity basis on the profit arising in or derived from the tax jurisdictions in which members of the WIL Subgroup are domiciled and operate.

World Through is an investment holding company incorporated in the BVI and was not subject to income tax.

The WIL Subgroup's subsidiaries located in the PRC were subject to EIT at the statutory tax rate of 33% (comprising an enterprise income tax rate of 30% and a local income tax rate of 3%) in 2007 and 25% in 2008 and thereafter under the then effective and current PRC income tax laws, respectively.

As was disclosed in note 10 above, pursuant to the then effective relevant PRC income tax laws and regulations, foreign-invested enterprises that were engaged in manufacturing activities with an operation period of over ten years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In accordance with the approval from the relevant tax authority, the WIL Subgroup's PRC subsidiaries including Jiangshan Phoebus and Zhangpu Phoebus enjoyed the above tax holiday with a two-year EIT exemption from year 2007 to 2008 and followed by a three-year 50% EIT reduction holiday from year 2009 to 2011. Meanwhile, Sunny, another PRC subsidiary, was recognised as a high-tech enterprise by the PRC tax authority in 2008 and was entitled to a 15% corporate income tax rate from year 2008 to 2010.

The reconciliation between tax expense and the product of accounting profit multiplied by the WIL Subgroup's applicable tax rates is as follows:

	Year ended 31 December 2007		
	Mainland China	Others	Total
	US$'000	US$'000	US$'000
Accounting profit before income tax	11,944	785	12,729
At the statutory income tax rate (Mainland China: 33%)	3,942	—	3,942
Tax exemption	(2,472)	—	(2,472)
Expenses not deductible for tax	300	—	300
Tax losses not recognised	65	—	65
Tax charge at the WIL Subgroup's effective rate	1,835	—	1,835

	Period from 1 January 2008 to 29 August 2008		
	Mainland China	Others	Total
	US$'000	US$'000	US$'000
Accounting profit before income tax	8,343	303	8,646
At the statutory income tax rate (Mainland China: 25%)	2,086	—	2,086
Lower tax rates enacted by local authority	(713)	—	(713)
Tax exemption	(353)	—	(353)
Expenses not deductible for tax	84	—	84
Tax charge at the WIL Subgroup's effective rate	1,104	—	1,104

The balance of unused tax losses for which no deferred tax assets were recognised was of US$197,000 as at 31 December 2007 and 29 August 2008, respectively.

Deferred tax assets
Movements of deferred tax assets are as follows:

	Inventory and doubtful debt provision	Total
	US$'000	US$'000
At 1 January 2007	15	15
Exchange realignment	1	1
At 31 December 2007 and 1 January 2008	16	16
Exchange realignment	1	1
At 29 August 2008	17	17

Deferred tax liabilities

Movements of deferred tax liabilities are as follows:

	Fair value adjustments arising from acquisition of a subsidiary	Total
	US$'000	US$'000
At 1 January 2007	423	423
Deferred tax credited to the income statement during the year	(16)	(16)
Exchange realignment	(1)	(1)
At 31 December 2007 and 1 January 2008	406	406
Deferred tax credited to the income statement during the period	(11)	(11)
Exchange realignment	(1)	(1)
At 29 August 2008	394	394

Pursuant to the PRC New Corporate Income Tax Law effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For World Through, the applicable rate is 10%. World Through as a company incorporated in the BVI is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 onwards.

At 29 August 2008, there were no recognised deferred tax liabilities for taxes that would be payable on the undistributed earnings of the WIL Subgroup's subsidiaries located in Mainland China, as those subsidiaries under the direct control of World Through had suffered losses from 1 January 2008 to 29 August 2008.

(iv) Property, plant and equipment

	Buildings	Leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cost:							
At 1 January 2007	4,670	—	10,236	112	583	1,683	17,284
Additions	159	9	1,876	25	79	1,657	3,805
Transfer in/(out)	2,401	—	719	3	—	(3,123)	—
Disposals	—	—	(120)	—	(14)	—	(134)
Exchange realignment	349	—	799	9	44	59	1,260
At 31 December 2007 and 1 January 2008	7,579	9	13,510	149	692	276	22,215
Additions	538	20	1,059	12	33	1,015	2,677
Transfer in/(out)	355	—	65	—	—	(420)	—
Disposals	—	—	(60)	(27)	—	—	(87)
Reclassified as non-current assets held for sale	—	—	(209)	(49)	(34)	(76)	(368)
Exchange realignment	467	1	948	9	47	30	1,502
At 29 August 2008	8,939	30	15,313	94	738	825	25,939
Accumulated depreciation:							
At 1 January 2007	500	—	1,885	51	220	—	2,656
Depreciation charge for the year	245	2	1,041	12	102	—	1,402
Disposals	—	—	(94)	—	(10)	—	(104)
Exchange realignment	42	—	167	4	18	—	231
At 31 December 2007 and 1 January 2008	787	2	2,999	67	330	—	4,185
Depreciation charge for the period	251	4	966	12	68	—	1,301
Disposals	—	—	(51)	(22)	—	—	(73)
Reclassified as non-current assets held for sale	—	—	(126)	(37)	(23)	—	(186)
Exchange realignment	55	—	223	4	23	—	305
At 29 August 2008	1,093	6	4,011	24	398	—	5,532
Net book value:							
At 29 August 2008	7,846	24	11,302	70	340	825	20,407
At 31 December 2007	6,792	7	10,511	82	362	276	18,030

As at 31 December 2007 and 29 August 2008, certain buildings with aggregate carrying amounts of approximately US$3,262,000 and US$7,329,000, respectively, were pledged to secure general banking facilities granted to the subsidiaries of World Through.

(v) Prepaid land lease payments

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Carrying amount at beginning of year/period	1,679	1,730
Recognised during the year/period	(36)	(26)
Exchange realignment	87	91
Carrying amount at end of year/period	1,730	1,795

As at 31 December 2007 and 29 August 2008, certain of the WIL Subgroup's land use rights with aggregate carrying amounts of approximately US$322,000 and US$459,000, respectively, were pledged to secure general banking facilities granted to the subsidiaries of World Through.

(vi) Goodwill

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Carrying amount at beginning of year/period	290	310
Reclassified as assets of a disposal group classified as held for sale	—	(310)
Exchange realignment	20	—
Carrying amount at end of year/period	310	—

Goodwill arose from the acquisition of Jiangshan Youhe on 20 December 2004.

As at the respective reporting dates, goodwill was tested for impairment and no impairment provision was recorded.

(vii) Intangible assets

	Computer software	Development costs	Total
	US$'000	US$'000	US$'000
Cost:			
At 1 January 2007	—	—	—
Additions	4	—	4
Exchange realignment	—	—	—
At 31 December 2007 and 1 January 2008	4	—	4
Additions	22	395	417
Exchange realignment	1	8	9
At 29 August 2008	27	403	430
Amortisation:			
At 1 January 2007	—	—	—
Additions	1	—	1
Exchange realignment	—	—	—
At 31 December 2007 and 1 January 2008	1	—	1
Amortisation	1	—	1
Exchange realignment	(1)	—	(1)
At 29 August 2008	1	—	1
Net book value:			
At 31 December 2007	3	—	3
At 29 August 2008	26	403	429

(viii) Investment in a jointly-controlled entity

The WIL Subgroup has a 50% interest in Jiangshan Liming Transportation Co., Ltd., a private entity that was not listed on any public exchange. The investment was classified as a non-current asset held for sale as at 29 August 2008, and was transferred to Zhejiang Tongjing on 8 September 2008 (note 6.6).

(ix) Investments in associates

The WIL Subgroup had a 30% interest in Jiangshan World Bright Crystal Co., Ltd. and a 49% interest in Zhejiang NVC as at 31 December 2007. The 30% equity interest in Jiangshan World Bright Crystal Co., Ltd. was transferred to Signkey immediately before the Company's acquisition of World Through. The investments have has been transferred to non-current assets held for sale as at 29 August 2008, and was transferred to Zhejiang Tongjing on 8 September 2008 (note 6.6).

Jiangshan World Bright Crystal Co., Ltd. and Zhejiang NVC were private entities that were not listed on any public exchange. The following table illustrates the summarised financial information of the WIL Subgroup's investments in associates:

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
Share of associates' revenue and profits and losses:		
Revenue	2,242	5,360
Profits/(losses)	(226)	12

	31 December 2007	29 August 2008
	US$'000	US$'000
Share of associates' assets and liabilities:		
Current assets	3,821	4,152
Non-current assets	1,039	625
Current liabilities	(3,088)	(3,369)
Net assets	1,772	1,408
Carrying amount of investments in associates	1,772	—

(x) Other non-current financial assets

	31 December 2007	29 August 2008
	US$'000	US$'000
Loans receivable from directors	2,187	—
Available-for-sale unlisted equity securities	36	—
	2,223	—

As at 31 December 2007, loans receivable from directors comprised the outstanding loan balance of US$153,000 and US$2,034,000 receivable from Mr. Xu Shuisheng and Mr. Jiang Jianming, the then directors of World Through and Sunny, respectively. The loans bore an annual interest rate of 7.47%, and were unsecured with maturity on 31 March 2009. The maximum amounts of principal and interest outstanding in aggregate during the year ended 31 December 2007 and the period from 1 January 2008 to 29 August 2008 were further disclosed in note (xii) other receivables (a) to the Accountants' Report.

(xi) Inventories

	31 December 2007	29 August 2008
	US$'000	US$'000
Raw materials	2,153	3,383
Work in progress	850	214
Finished goods	1,711	7,431
Total inventories	4,714	11,028

Inventory provisions of US$196,000 and US$80,000 were made as at 31 December 2007 and 29 August 2008, respectively, and were recognised as an expense for the year ended 31 December 2007 and the period from 1 January 2008 to 29 August 2008, respectively.

(xii) Trade and other receivables

	31 December 2007	29 August 2008
	US$'000	US$'000
Trade receivables	17,448	17,524
Provision	(209)	(115)
	17,239	17,409
Other receivables	5,724	17,528
Provision	(87)	(82)
	5,637	17,446
	22,876	34,855

Trade receivables

Trade receivables are non-interest-bearing. The WIL Subgroup's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally 60 to 90 days. The WIL Subgroup seeks to maintain strict control over its outstanding receivables and has established a credit control management system. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the WIL Subgroup's trade receivables related to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are free of interest.

An ageing analysis of the trade receivables of the WIL Subgroup as at the respective reporting dates, based on the invoice dates, net of provision, is as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Within 3 months	16,291	15,199
4 to 6 months	460	1,894
7 to 12 months	86	—
Over 1 year	402	316
	17,239	17,409

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
At beginning of year/period	188	209
Impairment loss recognised	6	—
Reclassified as non-current assets held for sale	—	(108)
Exchange realignment	15	14
At end of year/period	209	115

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of US$209,000 and US$115,000 as at 31 December 2007 and 29 August 2008, respectively, with a carrying amount before provision of US$209,000 and US$115,000 as at 31 December 2007 and 29 August 2008, respectively. The individually impaired trade receivables were related to customers that were in unexpected financial difficulties and it is assessed that such receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of trade receivables approximate to their fair values.

The ageing analysis of trade receivables that are not considered to be impaired as at the respective reporting dates, is as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Neither past due nor impaired:	14,078	11,876
Past due but not impaired		
— Less than 2 months past due	2,650	5,150
— Over 2 months past due	511	383
	17,239	17,409

Receivables that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good repayment record with the WIL Subgroup. Based on past experience, the directors of the WIL Subgroup are of the opinion that no impairment provision is required in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The WIL Subgroup does not hold any collateral or other credit enhancements over these balances.

Included in the trade receivable are amounts due from the following related companies. For the relationships between the following companies and the WIL Subgroup, please refer to note (xxii).

	31 December 2007	29 August 2008
	US$'000	US$'000
Zhejiang NVC	512	717
Zhejiang Tonking	3,585	1,642
Quzhou Phoebus Lighting Dectron Co., Ltd.	1,498	1,444
	5,595	3,803

The balances were interest-free and unsecured with general credit terms ranging from 60 to 90 days except that a special credit term of 200 days was granted to Zhejiang Tonking.

Other receivables

Other receivables comprised the following:

	Notes	31 December 2007	29 August 2008
		US$'000	US$'000
Receivables from third parties		2,093	1,942
Receivables from directors	(a)	84	15,285
Amounts due from other related parties	(b)	3,460	219
		5,637	17,446

(a) Receivables from directors as at 29 August 2008 mainly comprised the following:

(i) The outstanding loan balance of US$3,243,000 receivable from Mr. Xu Shuisheng and US$6,888,000 receivable from Mr. Jiang Jianming, which bore an annual interest rate of 7.47% and were unsecured. In accordance with the WIL SPA, Mr. Wu Jiannong undertook to repay to World Through the above-mentioned loans plus interests. The loans were included in the acquired assets the WIL Subgroup. Please refer to note 21(b) to the Financial Information for details. The maximum amount of principal and interest outstanding in aggregate during the year ended 31 December 2007 and the period from 1 January 2008 to 29 August 2008 were of US$7,031,000 and US$10,131,000, respectively.

(ii) receivables of US$5,055,000 due from Mr. Wu Jiannong, which was included in the acquired assets of the WIL Subgroup. Please refer to note 21(b) to the Financial Information for details. The maximum amount outstanding during the period from 1 January 2008 to 29 August 2008 was of US$8,606,000.

(b) Amounts due from other related parties comprised the following:

	31 December 2007	29 August 2008
	US$'000	US$'000
Zhejiang Tonking	14	—
Jiangshan World Bright Crystal Co., Ltd.	1,872	—
Quzhou Aushite Illumination Co., Ltd.	1,572	—
Zhejiang NVC	—	17
Signkey	2	202
	3,460	219

For the relationships between the above companies and the WIL Subgroup, please refer to note (xxii).

The balances were interest-free, unsecured and repayable within one year.

Movements in the provision for impairment of other receivables:

	Year ended 31 December 2007	Period from 1 January 2008 to 29 August 2008
	US$'000	US$'000
At beginning of year/period	81	87
Reclassified as non-current assets held for sale	—	(10)
Exchange realignment	6	5
At end of year/period	87	82

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of US$87,000 and US$82,000 as at 31 December 2007 and 29 August 2008, respectively, with a carrying amount before provision of US$87,000 and

US$82,000 as at 31 December 2007 and 29 August 2008, respectively. The individually impaired other receivables were related to parties that were in unexpected financial difficulties and it is assessed that such receivables are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

An ageing analysis of other receivables of the WIL Subgroup as at the respective reporting dates, net of provision, is as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Within 1 year	5,260	16,573
1 to 2 years	234	574
Over 2 years	143	299
	5,637	17,446

The other receivables that are not considered to be impaired as at the respective reporting dates are as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Neither past due nor impaired	5,637	17,062
Past due but not impaired	—	384
	5,637	17,446

The carrying amounts of other receivables approximate to their fair values. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

(xiii) Held-for-trading financial assets

Held-for-trading financial assets represented the WIL Subgroup's equity investments in listed shares in the PRC stock market.

(xiv) Cash and short-term deposits

	31 December 2007	29 August 2008
	US$'000	US$'000
Cash at banks and on hand	10,674	5,761
Pledged deposits	821	—
	11,495	5,761

Pledged deposits were placed in banks to secure the issuance of bank accepted notes as a kind of banking facility and earned interest at an interest rate of 2.61% per annum. Cash at banks earned interest at floating rates based on the daily bank deposit rate. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

The WIL Subgroup's cash and bank balances denominated in RMB amounted to RMB80,274,000 (equivalent to US$10,990,000) and RMB35,432,000 (equivalent to US$5,184,000) as at 31 December 2007 and 29 August 2008, respectively, which are not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the WIL Subgroup is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The carrying amounts of cash and short-term deposits approximate to their fair values.

(xv) Non-current assets held for sale and net assets of a disposal group classified as held for sale

As at 29 August 2008, assets and liabilities of Jiangshan Youhe and Hangzhou Tongren are classified as assets and liabilities of a disposal group classified as held for sale, and other Spin-off Assets are classified as non-current assets held for sale. For details, please refer to note 6.6.

(xvi) Trade and bills payables

	31 December 2007	29 August 2008
	US$'000	US$'000
Trade and bills payables to third parties	10,435	9,142
Trade payables to related parties	4,695	5,716
	15,130	14,858

Trade and bills payables were unsecured, interest-free with settlement terms ranging from 60 to 90 days.

The balance of trade payables to related parties comprised the following:

	31 December 2007	29 August 2008
	US$'000	US$'000
Zhejiang Tonking	1,364	3,275
Quzhou Phoebus Lighting Dectron Co., Ltd.	1,937	—
Jiangshan World Bright Crystal Co., Ltd.	148	306
Quzhou Aushite Illumination Co., Ltd.	1,242	2,129
Jiangshan Liming Transportation Co., Ltd.	4	6
	4,695	5,716

For the relationships of the above companies and the WIL Subgroup, please refer to note (xxii).

An ageing analysis of the trade and bills payables as at the respective reporting dates, based on the invoice date, is as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Within 3 months	10,790	11,890
4 to 6 months	4,186	2,680
7 to 12 moths	19	208
1 to 2 years	28	10
2 to 3 years	7	2
Over 3 years	100	68
	15,130	14,858

(xvii) Other payables and accruals

	31 December 2007	29 August 2008
	US$'000	US$'000
Advances from customers	784	840
Other payables to third parties	5,568	10,325
Other payables to directors	—	1,395
Other payables to other related parties	6,102	6,397
	12,454	18,957

Other payables are non-interest-bearing and have no fixed terms of repayment. The carrying amounts of other payables and accruals approximate to their fair values.

The balances due to other related parties include the following:

	31 December 2007	29 August 2008
	US$'000	US$'000
Amount due to Signkey	5,943	6,351
Amount due to Jiangshan Liming Transportation Co., Ltd.	159	46
	6,102	6,397

(xviii) Interest-bearing loans

	31 December 2007			29 August 2008		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current						
Bank loans — unsecured	6.12-7.47	2007-2008	8,898	5.265-7.47	2008-2009	13,899
Bank loans — secured	5.265-7.47	2008	7,010	7.47	2009	6,000
			15,908			19,899
Non-current						
Long-term loan — unsecured	13.5	2011	274	13.5	2011	293
			16,182			20,192

Current portion
Certain bank loans are secured by:

— certain buildings of the WIL Subgroup with aggregate carrying amounts of approximately US$3,262,000 and US$7,329,000 as at 31 December 2007 and 29 August 2008, respectively, which were pledged to secured general banking facilities granted to the WIL Subgroup;

— certain land use rights of the WIL Subgroup with aggregate carrying amounts of approximately US$322,000 and US$459,000 as at 31 December 2007 and 29 August 2008, respectively;

— besides, loans of US$1,369,000 and US$2,926,000 as at 31 December 2007 and 29 August 2008, respectively, were guaranteed by Jiangshan He Jia Shan Cement Co., Ltd., and

— loans of US$5,339,000 and US$1,463,000 as at 31 December 2007 and 29 August 2008, respectively, were guaranteed by Quzhou Aushite Illumination Co., Ltd.

Non-current portion
A long-term unsecured loan amounting to RMB2 million (equivalent to US$274,000 as at 31 December 2007 and US$293,000 as at 29 August 2008, respectively) was borrowed from the local government of Jiangshan City, Zhejiang Province of the PRC. The loan carries a fixed interest of RMB360,000 (equivalent to US$52,000 per annum) with maturity on 31 December 2011.

(xix) Issued capital

The balance as at 31 December 2007 represented the capital issued to Mr. Wu Jiannong, Mr. Jiang Jianming, Mr. Xu Shuisheng, Mr. Qiao Jianping and Ms. Shen Menghong. On 7 February 2008, the above individual shareholders transferred their equity interests in World Through to Signkey.

(xx) Reserves

The movements in the reserves of the WIL Subgroup are set out in the consolidated statements of changes of equity.

Shareholders' contribution
Shareholders' contribution represented cash contributed by Mr. Wu Jiannong according to the WIL SPA entered into by Mr. Wu Jiannong, the Company, World Through and Signkey on 14 August 2008.

Other reserve
Balance of other reserve arose from the Reorganisation of Sunny under the common control of Mr. Wu Jiannong.

Statutory reserve
Pursuant to the relevant PRC laws and regulations, each of the wholly-owned foreign enterprises registered in the PRC is required to transfer not less than 10% of its profit after tax, as determined in accordance with general accepted accounting principles in the PRC, to its reserve fund, until the balance of the fund reaches 50% of the registered capital of that company. The fund is restricted as to use.

Foreign currency translation reserve
The foreign currency translation reserve recorded exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(xxi) Commitments and contingent liabilities

Capital commitments

The WIL Subgroup had the following capital commitments as at the respective reporting dates:

	31 December 2007	29 August 2008
	US$'000	US$'000
Contracted, but not provided for:		
Acquisition of fixed assets	13	202

There were no significant authorised but not contracted commitments as at 31 December 2007 and 29 August 2008.

Operating lease commitments — as lessee

Future minimum rental payables under non-cancellable operating leases with lease terms ranging from 1 to 30 years as at the respective reporting dates are as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Within 1 year	27	19
After 1 year but not more than 5 years	72	77
More than 5 years	303	305
	402	401

Operating lease commitments — as lessor

As a lessor, the WIL Subgroup leases its plants under operating lease arrangements with lease terms ranging from 1 to 20 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at the respective reporting dates, the WIL Subgroup had total future minimum rental receivables under non-cancellable operating leases as follows:

	31 December 2007	29 August 2008
	US$'000	US$'000
Within 1 year	225	252
After 1 year but not more than 5 years	823	819
More than 5 years	2,934	2,832
	3,982	3,903

Contingent liabilities

As at 31 December 2007 and 29 August 2008, the WIL Subgroup had contingent liabilities of US$7,132,000 and US$10,549,000, respectively, which were associated with the financial guarantees provided to Zhejiang NVC, Quzhou Aushite, Jiangshan World Bright Crystal Co., Ltd., which are related companies of World Through, and Jiangshan He Jia Shan Cement Co., Ltd., an independent party, against their bank loans that remained outstanding as at the respective reporting dates.

(xxii) Related party transactions

Major related parties that the WIL Subgroup had transactions with during the Pre-acquisition Relevant Periods are as follows:

Associates
Zhejiang NVC
Jiangshan World Bright Crystal Co., Ltd.

A jointly-controlled entity
Jiangshan Liming Transportation Co., Ltd.

Entities controlled by Mr. Wu Jiannong, a director of World Through
Zhejiang Tonking
Quzhou Aushite Illumination Co., Ltd.
Quzhou Phoebus Lighting Dectron Co., Ltd.
Signkey

Significant transactions with related parties

	Notes	Year ended 31 December 2007 US$'000	Period from 1 January 2008 to 29 August 2008 US$'000
Sales of finished goods and other materials to:			
Zhejiang NVC		874	2,801
Quzhou Phoebus Lighting Dectron Co., Ltd.		3,541	—
Jiangshan World Bright Crystal Co., Ltd.		348	—
Quzhou Aushite Illumination Co., Ltd.		19	—
	1)	4,782	2,801
Purchases of raw materials and finished goods from:			
Zhejiang Tonking		45	420
Zhejiang NVC		9	6
Quzhou Phoebus Lighting Dectron Co., Ltd.		1,941	—
Jiangshan World Bright Crystal Co., Ltd.		990	1,735
Quzhou Aushite Illumination Co., Ltd.		8,737	5,488
	2)	11,722	7,649
Service charges from:			
Jiangshan Liming Transportation Co., Ltd.	3)	428	358
Rental fee income from:			
Zhejiang NVC		21	70
Quzhou Phoebus Lighting Dectron Co., Ltd.		10	—
	4)	31	70
Loans to directors:			
Mr. Xu Shuisheng		2,900	2,867
Mr. Jiang Jianming		2,636	4,301
Ms. Shen Menghong		1,055	13
Mr. Wu Jiannong		20	135
	5)	6,611	7,316
Interest income from directors:			
Mr. Xu Shuisheng		77	150
Mr. Jiang Jianming		74	319
Ms. Shen Menghong		28	—
Mr. Wu Jiannong		—	—
	5)	179	469
Undertaking of loss arising from listed equity securities held by Jiangshan Phoebus			
Mr. Wu Jiannong	6)	—	8,606

Financial guarantees

As mentioned in note (xxi) above, the WIL Subgroup provided financial guarantees to its related parties for their bank loans during the Pre-acquisition Relevant Periods.

Terms and conditions of transactions with related parties

1) Sales to the related companies were made at prices agreed by both parties.

2) Purchases from related companies were made at prices agreed by both parties.

3) Service charges were made at prices agreed by both parties.

4) Rental fee was made at prices agreed by both parties.

5) During the year ended 31 December 2007, loans to the then directors bore annual interest rates ranging from 5.85% to 7.47%, with US$4,793,000 maturing on 31 December 2007 and US$2,187,000 maturing on 31 March 2009.

6) In accordance with the WIL SPA dated 14 August 2008, Mr. Wu Jiannong undertook to repay to World Through an amount of RMB59,063,739 (equivalent to US$8,606,000) as compensation for the investment loss arising from the investments in listed equity shares then held by Jiangshan Phoebus. The remained outstanding balance due from Mr. Wu Jiannong in this regard as at 29 August 2008 was US$5,055,000 (note 21(b)).

(xxiii) Segment information

During the Pre-acquisition Relevant Periods, all of the WIL Subgroup's revenue and operating profit are generated from the production, marketing and distribution of lamps. Accordingly, the WIL Subgroup's operating activities are attributable to a single business segment and no business segment information has been presented. Except for the revenue generated from overseas amounting to US$8,027,000 and US$6,032,000 for the year ended 31 December 2007 and the period from 1 January 2008 to 29 August 2008, respectively, all of the WIL Subgroup's revenue were generated from Mainland China and its non-current assets were located in Mainland China during the Pre-acquisition Relevant Periods.

As at 31 December 2007, sales to three customers amounted to US$11,598,000, US$10,742,000 and US$10,181,000, respectively, each exceeding 10% of the WIL Subgroup's total sales revenue and arising from sales by the lamps segment.

For the period from 1 January 2008 to 29 August 2008, sales to two customers amounted to US$13,027,000 and US$7,596,000, respectively, each exceeding 10% of the WIL Subgroup's total sales revenue and arising from sales by the lamps segment.

40. EVENTS AFTER REPORTING PERIOD

On 24 March 2010, the board of directors resolved to (a) propose to split the Company's shares on a 1:1000 basis ("Proposed Share Split") and (b) amend the pre-IPO share option scheme ("Amended Scheme"). As a result, 48,545 new share options (48,545,000 new share options after the Proposed Share Split) were granted and the aggregate number of common shares that may be issued pursuant to the Amended Scheme shall not exceed 240,429 common shares (240,429,000 common shares after the Proposed Share Split). The Amended Scheme was approved by the board of directors on 24 March 2010 and effective on 1 April 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong